



SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Financial Statements and Supplemental Information

September 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

September 30, 2008 and 2007

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Letter of Transmittal

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Introduction

This Section of the annual financial report of the Sarasota County Public Hospital District (the District) provides background about the Sarasota Memorial Health Care System (the System).

Background and Achievements

Sarasota Memorial Hospital (Sarasota Memorial or the Hospital), an 806-bed regional medical center, is the second-largest acute care public hospital in Florida. With more than 4,000 staff, 1,000 volunteers and 750 physicians, the System is among the region's largest employers. A community hospital, Sarasota Memorial is governed by the nine-member elected Board. Founded in 1925, the hospital is a full-service facility with specialized expertise in heart, neuroscience and cancer services, a Level III Neonatal Intensive Care Unit, outpatient services, physician practices, home health and long-term care among its many programs. It is the only provider of obstetrical services in Sarasota County. One of the first nonacademic hospitals in the nation to develop a clinical research service, Sarasota Memorial conducts advanced research and trials that have received national recognition. The System also has established an affiliation with Florida State University to train third- and fourth-year medical students.

The District consists of the Hospital; Corporate Services, which consists of various support departments; Sarasota Memorial Nursing and Rehabilitation Center (NRC); Varsity Health Charter Plan (Charter Plan); SMH Health Care, Inc., a corporation providing leased personnel services to all system entities; Sarasota Memorial Home Care, Inc., a home health care company; and SMH Physicians Services, Inc., a provider of primary, obstetrical, gynecological, dermatological, pain care, geriatric, hospitalist and psychiatric physician services.

Sarasota Memorial's strategic goals fall under its Pillars of Excellence: Service, People, Growth, Finance and Community, all of which rest on a foundation of Quality/Safety. The System's recent accomplishments and updates include:

Quality/Safety

Sarasota Memorial Again Named among America's best in U.S. News and World Report

For the fifth consecutive year, *U.S. News & World Report* magazine has listed Sarasota Memorial in its prestigious "America's Best Hospitals" issue, ranking the health system among the top 50 hospitals in the nation for geriatric care in 2008. Of 5,453 hospitals evaluated, only 170 – just 3% – are ranked in one or more of the 16 specialties in this year's "America's Best Hospitals" issue. Most that did are teaching hospitals and major referral centers, and the magazine notes, accustomed to seeing the toughest patients and conducting bench-to-bedside research that advances the state of the art. Sarasota Memorial is the only hospital in southwest Florida to make the list in 2008.

System Named Consumers' Preferred Hospital

For the 11th consecutive year, Sarasota Memorial was named the Consumer Choice Award winner for the Sarasota-Bradenton-Venice metropolitan area by the National Research Corporation (NRC), an independent health care performance measurement company based in Lincoln, Neb. The award for 2008/09 identifies hospitals that health care consumers have chosen as having the highest quality and image ratings in more than 250 markets throughout the nation. The winners, who rank highest in their Metropolitan Statistical Areas, were

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determined by consumer perceptions collected in the National Research Corporation's Healthcare Market Guide Ticker study, which surveyed more than 200,000 households across the U.S.

Forbes.com Lists Sarasota Memorial as One of America's Safest Hospitals

Sarasota Memorial was recognized by Forbes.com in 2008 as one of "America's Safest Hospitals." It was one of only 10 largest safe hospitals spotlighted on the business magazine's website.

One of Few Comprehensive Stroke Centers in Florida

Sarasota Memorial has been designated by the Florida Agency for Healthcare Administration (AHCA) as one of the state's few "Comprehensive Stroke Centers," singling out the hospital as a preferred provider for people facing the greatest challenges in stroke care.

The designation follows the System's certification with distinction as a Primary Stroke Center by the Joint Commission on the Accreditation of Healthcare Organizations. The honor, which was bestowed in October 2005, demonstrates that the System's stroke care program follows national standards and guidelines that can significantly improve outcomes for stroke patients. Florida uses Joint Commission certification as a means to designate preferred providers of primary stroke care, allowing paramedics and emergency medical technicians to bypass nondesignated hospitals and take stroke victims straight to a specially designated stroke center.

Sarasota Memorial's stroke program is an integral part of the System's Neuroscience Center of Excellence, which encompasses all of the System's neurological programs and services.

National Accreditation from the Joint Commission

Sarasota Memorial was awarded a full three-year accreditation through the spring of 2009 from the Joint Commission on the Accreditation of Healthcare Organizations, which conducts rigorous on-site review of licensure, quality and safety issues.

Advanced Technology Helps Improve Quality, Care and Safety

Sarasota Memorial surgeons are using the daVinci-S robotic surgery system in an ever-widening choice of minimally invasive surgeries, including cardiac, prostate and gynecological oncology procedures. The hospital has purchased a second robot and opened a dedicated surgical suite for minimally invasive cardiac surgery.

People

Superior Nursing Care

In 2008, Sarasota Memorial was re-designated a Magnet hospital, the nation's highest honor for excellence in nursing. Given by the American Nurses' Credentialing Center, the premier authority on nursing, Magnet recognition means that Sarasota Memorial provides a supportive environment that attracts and retains the best and brightest caregivers. Sarasota Memorial, which initially earned the recognition in 2003, is the only hospital in the region to earn the designation. To be continually recognized as a Magnet hospital, applicants must pass rigorous reviews, and meet criteria indicating superiority in all aspects of nursing services. Independently sponsored research projects suggest that Magnet facilities have positive outcomes for patients, nurses and workplaces.

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Nurses Vote Sarasota Memorial as One of State's Top Hospitals

Sarasota Memorial was named one of Florida's "top hospitals" in ADVANCE for Nurses newsmagazine's second annual nurses' survey of hospital performance. Voting was open to RNs who evaluated 279 hospitals across Florida in areas that matter most to nurses: quality of care, organizational culture, professional development, communication and nurse retention efforts. It was the second year in a row that Sarasota Memorial scored top honors in all five categories, earning it a spot on the Readers' Choice Honor Roll.

Growth

Main Campus Improvements

Sarasota Memorial is moving forward with plans to rejuvenate its main campus. The first phase, now under way and expected to be complete by the end of 2009, is the construction of a new energy plant to replace the current aged, outdated facility. Once the new plant is complete, work will begin on a new hurricane-hardened bed tower that will replace older wings of the hospital. The new tower will connect to existing hospital buildings, promoting more integrated medical services, greater convenience, increased speed of care, reduced crowding, ease of future renovation and lower life-cycle costs. The new tower, which also will have the latest amenities and patient-safe, patient-centered features, will not add any bed capacity, but will replace approximately 200-220 of the existing beds.

Ambulatory Centers Improve Access to Health Care throughout Region

Construction is under way on Sarasota Memorial's North Port Emergency Room and Outpatient Center. The 2-story, 50,000 square foot building just off Toledo Blade Boulevard is scheduled to open in the summer of 2009. The facility will include a freestanding emergency room staffed by board-certified emergency physicians, a walk-in medical clinic for less urgent medical conditions, and comprehensive outpatient services, including a laboratory, advanced radiology department, rehabilitation programs, home health and physician offices.

Sarasota Memorial also is slated to open a comprehensive outpatient center in Heritage Harbor in Manatee County in 2009.

Service/Community

The Community's Health Care Safety Net

While public hospitals are closing their doors in great numbers, Sarasota Memorial is a rare institution: a thriving health system recognized for both its quality and its mission-driven programs.

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The health system is run by local, publicly elected trustees who invest Sarasota Memorial's excess of revenues over expenses back into patient care programs, new technology, medicines and education that meet the specific and unique health needs of this community and provide care for the uninsured. As the only publicly owned and operated hospital in a four-county region, Sarasota Memorial provides safety-net services to all who need them, regardless of their ability to pay:

- Sarasota Memorial is the only provider of obstetrical (OB) services in the county. Nearly half of Sarasota Memorial's OB patients lack adequate insurance. Sarasota Memorial also is the only Level III neonatal intensive care provider in the region.
- Our behavioral health hospital is the only one of its kind in the county. Sarasota Memorial also has the only special emergency room psychiatric unit in the entire region.
- Sarasota Memorial's Community Medical Clinic and support of the not-for-profit North County Health Center provides primary and specialty care to more than 7,000 people on a sliding fee scale, and free care to those who meet certain criteria.
- Sarasota Memorial's Charter Plan offers affordable health insurance for small businesses that lack coverage.
- Sarasota Memorial also provides financial support and/or resources for several community health-related programs.
- Sarasota Memorial employs a sliding scale discount program that offers significantly reduced rates to lower-income, uninsured patients. The program's goal is to make health care more affordable for the working uninsured and allow them to pay what they can. We recognize that medical bills often impose a staggering, unexpected burden on families, and can discourage the uninsured from seeking care. Our discount plan treats patients with dignity and compassion, and encourages the uninsured to take care of their health needs promptly, before conditions become catastrophic.

FastER Care

Sarasota Memorial continues to set the bar for emergency wait times despite having one of the busiest ERs on Florida's west coast. Most of the hospital's approximately 77,000 emergency patients see a physician within 30 minutes of arriving in the hospital's Emergency Department. The system's two Walk-In Clinics also have implemented the 30-minute wait-time promise, providing patients with prompt urgent medical services in two convenient outpatient locations.

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Finance

Operational Improvements Reduce Expenses, Enhance Revenue Stream

The District continues to pursue a number of initiatives aimed at improving the System's operations. These efforts include both revenue enhancement and expense reduction initiatives and represent an integral part of management's business plan. Some of the major operational improvements under way include:

- *Revenue Cycle Improvement* – Net patient service revenue per adjusted admission continues to increase due to newly renegotiated contracts with managed care payors, aggressive upfront collection practices, responsive financial counseling to find funding sources or documented charity care, increased denial and underpayment recovery, use of multiple collection agencies and attorneys to recover payments, and continued process improvement with business office systems and processes.
- *Revenue Growth Strategies* – Assessing service growth through the utilization of existing capabilities and resources or through relatively low levels of re-investment, and expanding outpatient services through adding convenient outpatient locations in the community.
- *Labor Management* – Continued use of prescribed staffing schedules to more appropriately match human resource levels with anticipated patient need, and continuous monitoring of labor expenses utilizing on-line availability of timely productivity information.
- *Supply Initiatives* – Continued focus on the level of appropriate medical supply and pharmacy levels and limiting excess inventory as part of improving the purchasing and procurement function as well as increased emphasis on the utilization of negotiated supply contracts. In addition, management has emphasized mid-month projections and monitoring of supply usage in connection with volume trends and related feedback to departmental managers in order for negative trends to be addressed more timely.

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Management's Discussion and Analysis

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(Unaudited)

This section of the annual financial report of the System provides management's discussion and analysis of the organization for the fiscal years ended September 30, 2008 and 2007. This discussion has been prepared along with the financial statements and related footnote disclosures, which should be read in conjunction with one another. This narrative, the financial statements, and footnotes are the responsibility of the System's management.

Required Financial Statements

The basic financial statements of the District report information about the District using accounting methods prescribed by the Financial Accounting Standards Board (FASB), the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations*. These statements provide current and long-term financial information about the District's activities. The following statements are included in this package:

- The Balance Sheets, which list all of the System's assets and liabilities and information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). The Balance Sheets also include information to help compute the rate of return on investments, evaluate the capital structure of the organization and assess the liquidity and financial flexibility of the System.
- The Statements of Operations and Changes in Net Assets include all of the current and prior year's revenues and expenses. This statement measures changes in the System's operations over the past two years and can be used to determine whether the System has been able to recover all of its costs through patient service revenue and other revenue sources.
- The Statements of Cash Flows provides information about the System's cash from operating, investing and financing activities. It explains the sources of cash, how it was spent and the change in the cash and cash equivalents balance during the current and prior fiscal years.

Summary of Financial Highlights and Trends

For the Year Ended September 30, 2008

The System's cash and cash equivalents, restricted investments and board designated investments increased from the prior year by approximately \$33.8 million for the year ended September 30, 2008. Long-term debt (including current portion) had a net decrease of approximately \$12.6 million due to scheduled principal payments of approximately \$7.4 million and refundings of bonds. The refundings of the Series 2003A and Series 2007A bonds were accomplished in September 2008 with the respective issuances of the Series 2008A and Series 2008B bonds; these bonds were issued at the same par amount and amortization schedule as the refunded bonds. The excess of revenues over expenses before nonoperating unrealized items of approximately \$59.7 million was greater than last year's excess of approximately \$45.8 million. Net assets increased by approximately \$14.7 million, largely as a result of the excess of revenues over expenses before nonoperating unrealized items, partially offset by unrealized losses in the market value of investments and interest rate swaps. Several factors contributed to the operating performance in fiscal year 2008:

- Inpatient volumes across Sarasota County decreased slightly in fiscal year 2008. The Hospital's inpatient admissions decreased from 27,337 in fiscal year 2007 to 25,863 in fiscal year 2008 – a 5.4% reduction.

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- Hospital outpatient cases, excluding emergency room visits, increased 9.4%. This includes a 1.4% increase in outpatient surgeries and a 14.9% increase in outpatient radiology procedures.
- Emergency Room registrations decreased by 5.1% to 77,085.
- Hospital payor mix in fiscal year 2008 compared to fiscal year 2007, showed a decrease in self-pay and Managed Care and Commercial Payors, and an increase in Medicaid and Medicare.

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Medicare	54.8%	54.1%	1.3%
Managed care and commercial	31.3	32.1	(2.5)
Self-pay and other	7.0	7.3	(4.1)
Medicaid	6.9	6.5	6.2
	<u>100.0%</u>	<u>100.0%</u>	

- Charity and bad debt expense decreased in fiscal year 2008 by approximately \$6.3 million (7%).
- Salaries and wages increased by approximately \$4.3 million (2.3%) in fiscal year 2008, largely as a result of the Hospital's 2.6% increase in rate of pay per hour, costing \$4.0 million in salary expense.
- Fringe benefits increased by \$8.2 million (18.3%) in fiscal year 2008, largely as a result of an increase in self-insured health plan costs of \$5.8 million (51.3%) related to very positive health claims experience in the prior year, an increase in retirement expense of \$0.6 million (4.1%), and an expense related to the implementation of Governmental Accounting Standards Board Statement number 45 for post employment benefit obligations of \$0.7 million. Total benefit expense as a percentage of salary expense increased from 24% to 27%.
- Contrary to trends in recent years, supply expense decreased. The decrease of approximately \$1.6 million in fiscal year 2008 was mainly the result of decreased inpatient volumes and utilization and improved contracted rates, partially offset by the continued increase in technologically advanced procedures, including robotic surgeries. Supply expense as a percentage of net patient revenue decreased from 22.9% to 21.8% in fiscal year 2008.
- Professional fees expenses increased by approximately \$1.0 million in fiscal year 2008. The increase arose from increases in physician fees relating to emergency coverage, medical directorships and expanded hospital services and facilities for radiology, interventional radiology, surgical services, pain management and walk-in centers.

For the Year Ended September 30, 2007

The System's cash and cash equivalents, restricted investments and board designated investments increased from the prior year by approximately \$33.1 million for the year ended September 30, 2007. Long-term debt (including current portion) had a net decrease of approximately \$2.9 million, largely due to the refunding of the Series 1985 crossover bonds, the defeasance of the Series 1996A and 1997B bonds and other principal reductions in debt during the fiscal year, partially offset by the issuance of Series 2007 bonds. The Series 1985 crossover bonds were redeemed by using the investments restricted for this purpose. The excess of revenues over expenses of

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approximately \$43.3 million was improved over last year's excess of revenues over expenses of approximately \$27.3 million. The excess of revenues over expenses before nonoperating unrealized items of approximately \$45.8 million was greater than last year's excess of approximately \$18.9 million. Net assets increased by approximately \$45.9 million, as a result of the excess of revenues over expenses and contributions restricted for capital purposes of \$2.5 million. Several market factors contributed to the operating performance in fiscal year 2007:

- Inpatient volumes across Sarasota County decreased slightly in fiscal year 2007. The Hospital's inpatient admissions decreased from 28,746 in fiscal year 2006 to 27,337 in fiscal year 2007 – a 4.9% reduction.
- Outpatient gross revenues grew by approximately \$26.3 million, or 5.0%, after factoring in the 10% overall price increase in fiscal year 2007. In addition:
 - Hospital outpatient cases increased 12.1%.
 - Emergency Room registrations decreased by 3.8% to 81,195.
 - Outpatient surgeries decreased 0.8% in fiscal year 2007 from the prior year.
- Hospital payor mix in fiscal year 2007 compared to fiscal year 2006, showed a decrease in self-pay and an increase in managed care and commercial payors.

	<u>2007</u>	<u>2006</u>	<u>% Change</u>
Medicare	54.1%	54.5%	(0.7)%
Managed care and commercial	32.1	31.2	2.9
Self-pay and other	7.3	8.1	(9.9)
Medicaid	6.5	6.2	4.8
	<u>100.0%</u>	<u>100.0%</u>	

- Charity and bad debt expense decreased in fiscal year 2007 by approximately \$2.7 million (2.9%).
- Salaries and wages increased by approximately \$10.4 million (5.9%) in fiscal year 2007. The Hospital's rate of pay per hour increased by 1.8%, costing an additional \$2.7 million in salary expense. The increase was also affected by a 2.8% increase in the Hospital ratio of paid FTEs per adjusted occupied bed, which increased from 4.73 in 2006 to 4.86 in 2007. This increase had an approximate \$4.0 million negative impact on salary expense. In addition to the hospital net increase in salary expense, the home health salary expense increased \$0.6 million, mostly related to a 14% increase in home health admissions and a 46% increase in private duty hours as well as routine rate increases. The Nursing and Rehabilitation Center salary expense increased \$0.5 million related largely to increased regulatory requirements for Certified Nursing Assistants and a 26% increase in Medicare patient days in addition to the routine rate increases. In addition to the above, the physicians services divisions' salary expense increased \$2.3 million, largely related to the operation of the productivity at-risk pay model and expansion of services including hospitalists, pain management and other new or increased services.

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- Fringe benefits decreased by \$7.2 million (13.9%) in fiscal year 2007, largely as a result of a decrease in self-insured health plan costs of \$6.9 million (37.9%) related to positive health claims experience compared to prior years and a decrease in retirement expense of \$0.7 million (4.0%). Total benefit expense as a percentage of salary expense decreased from 29% to 24%.
- Similar to recent years, supply expense continued to rise in response to changes in technology. The increase of approximately \$4.9 million in fiscal year 2007 was mainly the result of a continued increase in technologically advanced procedures, including robotic surgeries. Supply expense as a percentage of net patient revenue remained steady in fiscal year 2007.
- Purchased services and professional fees expenses increased by approximately \$10.6 million in fiscal year 2007. This category includes various increases identified in more detail in a later section of this document. The largest components included a \$2.7 million increase in the usage of and costs charged by traveling nurse agencies, \$1.2 million related to business development and growth costs, an increase of \$0.7 million related to the expansion of the federally grant funded Early Steps program, a \$2.4 million increase in building rent expense largely related to the new Institute for Advanced Medicine, a \$0.9 million increase in physician fees relating to emergency coverage, a \$0.8 million increase in equipment rent related to imaging equipment leases, and a \$0.7 million increase in repairs and maintenance costs. The increases were partially offset by a \$2.7 million decrease in self-insurance professional liability expenses that arose as a result of historical claims experience based on an actuarial analysis.

Operating Statistics

Admissions volume decreased 2.3% across the Sarasota County area in fiscal year 2008, compared to fiscal year 2007. In 2007, the County experienced a 1.7% decrease in volume of admissions compared to 2006 (Source: Health Planning Council). The Hospital's admissions decreased 5.4% over the twelve-month period that ended September 30, 2008, compared to a 4.9% decrease for the same period in 2007. Hospital inpatient market share for the year ended September 30, 2008, declined from 58.4% to 56.5%, while the Hospital outpatient volume, excluding emergency room visits) increased by 9.4%.

The following table represents utilization statistics for Sarasota Memorial Hospital for the fiscal years indicated:

	Fiscal years ended September 30,				
	2008	2007	2006	2005	2004
Average number of beds in service:					
Medical/surgical intensive care	24	32	32	32	32
Cardiac telemetry, acute and intensive care	143	144	144	145	166
Other medical/surgical	260	234	234	229	228
Total medical/surgical	427	410	410	406	426
Obstetrics	66	66	66	62	49
Psychiatric and substance abuse	62	62	62	60	52
Rehabilitation	34	54	54	56	56
Pediatrics	26	26	26	26	18
Total hospital	615	618	618	610	601

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	Fiscal years ended September 30,				
	2008	2007	2006	2005	2004
Admissions:					
Total medical/surgical	19,429	20,465	20,958	21,177	21,934
Obstetrics	3,576	3,736	3,822	3,712	3,715
Psychiatric and substance abuse	1,421	1,443	1,541	1,509	1,481
Rehabilitation	726	852	1,464	1,572	1,803
Pediatrics	711	841	961	915	977
Total hospital	25,863	27,337	28,746	28,885	29,910
Average length of stay:					
Total medical/surgical	5.16	5.11	5.02	4.78	4.58
Obstetrics	2.63	2.61	2.64	2.78	2.59
Psychiatric and substance abuse	6.43	6.90	6.86	7.09	7.63
Rehabilitation	11.43	10.54	9.81	10.13	9.47
Pediatrics	3.35	3.02	2.45	2.70	2.44
Total hospital	5.00	5.00	4.96	4.87	4.71
Number of patient days:					
Medical/surgical intensive care	6,164	7,025	6,676	7,080	7,138
Cardiac telemetry, acute and intensive care	30,588	31,844	32,433	31,053	32,634
Other medical/surgical	63,414	65,633	66,103	63,131	60,779
Total medical/surgical	100,166	104,502	105,212	101,264	100,551
Obstetrics	9,422	9,743	10,093	10,330	9,612
Psychiatric and substance abuse	9,136	9,962	10,569	10,700	11,300
Rehabilitation	8,296	8,976	14,366	15,932	17,077
Pediatrics	2,381	2,540	2,352	2,468	2,383
Total hospital	129,401	135,723	142,592	140,694	140,923
Fiscal years ended September 30,					
	2008	2007	2006	2005	2004
% Occupancy:					
Medical/surgical intensive care	70.4	60.1	57.2	60.6	61.1
Cardiac telemetry, acute and intensive care	58.6	60.6	61.7	58.7	53.9
Other medical/surgical	66.8	76.8	77.4	75.5	73.0
Total medical/surgical	64.3	69.8	70.3	68.3	64.7
Obstetrics	39.1	40.4	41.9	45.6	53.7
Psychiatric and substance abuse	40.4	44.0	46.7	48.9	59.5
Rehabilitation	66.8	45.5	72.9	77.9	83.5
Pediatrics	25.1	26.8	24.8	26.0	36.3
Total hospital	57.6	60.2	63.2	63.2	64.2

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The following table represents ancillary department activity for the System for the fiscal years indicated.

	Fiscal years ended September 30,				
	2008	2007	2006	2005	2004
Radiology:					
I/P	71,398	74,939	77,453	76,878	86,433
O/P	199,191	173,357	155,284	145,096	133,410
Total	<u>270,589</u>	<u>248,296</u>	<u>232,737</u>	<u>221,974</u>	<u>219,843</u>
Nuclear medicine:					
I/P	2,844	3,211	4,091	3,500	3,356
O/P	5,810	6,448	7,175	6,998	6,689
Total	<u>8,654</u>	<u>9,659</u>	<u>11,266</u>	<u>10,498</u>	<u>10,045</u>
Laboratory units:					
I/P	903,667	727,953	712,047	722,423	709,802
O/P	771,495	748,963	636,425	612,545	582,886
Total	<u>1,675,162</u>	<u>1,476,916</u>	<u>1,348,472</u>	<u>1,334,968</u>	<u>1,292,688</u>
Respiratory therapy:					
I/P	91,052	95,388	104,223	107,730	102,634
O/P	12,219	11,100	10,407	10,771	10,689
Total	<u>103,271</u>	<u>106,488</u>	<u>114,630</u>	<u>118,501</u>	<u>113,323</u>
Electrocardiograms	54,974	55,841	54,529	70,055	63,531
Cardiac catheterization procedures	27,162	24,954	28,427	23,700	23,217
Physical therapy units	132,240	123,212	127,931	131,411	136,547
Occupational therapy units	56,299	58,667	67,616	72,390	68,493
Hemodialysis treatments	2,162	2,714	2,603	2,773	2,620
Emergency room visits/registrations	77,085	81,195	84,385	76,921	76,990
Surgery cases	17,784	17,840	18,260	18,429	22,038
Home health visits	40,237	40,750	36,868	42,501	42,775

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Management's Discussion and Analysis

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Statements of Operations and Changes in Net Assets

For the Year Ended September 30, 2008

A summary of the System's Statements of Operations and Changes in Net Assets for fiscal year 2008 as compared to fiscal year 2007 is presented below (in thousands):

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Net patient service revenue	\$ 432,669	418,593	14,076	3.4%
Other revenue	17,831	17,397	434	2.5
Total operating revenues	450,500	435,990	14,510	3.3
Total operating expenses	465,879	455,624	10,255	2.3
Operating loss	(15,379)	(19,634)	4,255	(21.7)
Total nonoperating items	27,312	62,939	(35,627)	(56.6)
Excess of revenues over expenses	11,933	43,305	(31,372)	(72.4)
Other changes in net assets	2,757	2,611	146	5.6
Net assets, beginning of year	446,118	400,202	45,916	11.5
Net assets, end of year	\$ <u>460,808</u>	<u>446,118</u>	<u>14,690</u>	<u>3.3%</u>

Discussion of 2008 Statements of Operations and Changes in Net Assets

Net Patient Service Revenue grew by \$14.1 million, or 3.4%, during fiscal year 2008. The growth in net revenues can be attributed partially to expansion of outpatient programs and capacities which contributed to the 9.4% increase in nonemergency outpatient cases. The increase in outpatient volumes included a 1.4% increase in outpatient surgeries and a 14.9% increase in outpatient radiology procedures. In addition to the growth in outpatient volumes and the impact of a 5% overall price increase, as noted earlier, the increase in net patient service revenue resulted from newly renegotiated contracts with managed care payors, aggressive upfront collection practices, responsive financial counseling to find funding sources or documented charity care, increased denial and underpayment recovery, use of multiple collection agencies and attorneys to recover payments, and continued process improvement with business office systems and processes. As a result of the revenue cycle improvements, there was a \$6.3 million (7%) decrease in charity and bad debt expense in fiscal year 2008.

Operating Expenses increased by approximately \$10.3 million, or 2.3%. Salaries and wages increased by approximately \$4.3 million, fringe benefits increased by approximately \$8.2 million, supplies decreased by approximately \$1.6 million, purchased services remained stable with the prior year, professional fees increased by approximately \$1.0 million, the State of Florida Medical Assistance Assessment decreased by approximately \$0.2 million, and depreciation decreased by approximately \$1.5 million.

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Management's Discussion and Analysis

September 30, 2008 and 2007

(Unaudited)

Salaries and Wages, as noted earlier, increased as a result of a rise in the hospital average hourly wage and an increase in the number of hospital FTEs per adjusted occupied bed. The Hospital's average hourly rate of pay increased by approximately 2.6% during fiscal year 2008. Hospital FTEs decreased from 2,953 to 2,906 from fiscal year 2007 to fiscal year 2008. Total System FTEs decreased from 3,535 in fiscal year 2007 to 3,517 in fiscal year 2008.

Fringe Benefits as a percentage of salaries and wages increased from 24% to 27%. The largest increases were approximately \$5.8 million in self-insured health plan costs, a \$0.7 million expense related to the implementation of Governmental Accounting Standards Board Statement number 45 for post employment benefit obligations, and \$0.6 million in retirement expenses.

Supplies Expenses declined by approximately \$1.6 million. Supplies expense as a percentage of net patient revenue remained stable in fiscal year 2008.

Professional Fees increased as a result of an increase in physician fees related to emergency coverage, medical directorships and expanded hospital services and facilities for radiology, interventional radiology, surgical services, pain management and walk-in centers.

As a result of the above-noted changes in operating costs and the decrease in admissions, operating cost per adjusted admission, adjusted for the increase in case mix index, increased 4.4% in fiscal year 2008.

Nonoperating (realized and unrealized) Items decreased by approximately \$35.6 million in fiscal year 2008. The decrease is largely comprised of unrealized negative changes in the market value of investments and interest rate swaps. The unrealized losses are partially offset by a realized gain on the sale of a medical office building on the main campus of the Hospital. Realized nonoperating income increased by approximately \$9.6 million, as a result of the aforementioned gain on the sale of the building and a \$0.8 million gain on the termination of an interest rate swap, partially offset by a \$4.7 million decrease in investment income and a \$1.0 million increase in interest expense. Unrealized changes in the market value of investments declined by \$15.7 million. The market value of interest rate swaps decreased by approximately \$34.2 million compared to the decrease of \$4.6 million in fiscal year 2007.

Excess of Revenues over Expenses for fiscal year 2008 was approximately \$11.9 million, versus an excess of revenues over expenses in fiscal year 2007 of approximately \$43.3 million. The \$31.4 million decline is a result of operating revenues increasing by approximately \$14.5 million, operating expenses increasing by approximately \$10.3 million, realized nonoperating income increasing by approximately \$6.7 million, and unrealized nonoperating items decreasing by \$45.3 million.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2008 and 2007

(Unaudited)

For the Year ended September 30, 2007

A summary of the System's Statements of Operations and Changes in Net Assets for fiscal year 2007 as compared to fiscal year 2006 is presented below (in thousands):

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>
Net patient service revenue	\$ 418,593	400,679	17,914	4.5%
Other revenue	17,397	15,506	1,891	12.2
Total operating revenues	435,990	416,185	19,805	4.8
Total operating expenses	455,624	437,269	18,355	4.2
Operating loss	(19,634)	(21,084)	1,450	(6.9)
Total nonoperating items	62,939	48,348	14,591	30.2
Excess of revenues over expenses	43,305	27,264	16,041	58.8
Other changes in net assets	2,611	1,086	1,525	140.4
Net assets, beginning of year	400,202	371,852	28,350	7.6
Net assets, end of year	\$ 446,118	400,202	45,916	11.5%

Discussion of 2007 Statements of Operations and Changes in Net Assets

Net Patient Service Revenues grew by \$17.9 million, or 4.5%, during fiscal year 2007. The growth in net revenues can be attributed partially to a \$74.1 million (15.5%) increase in gross outpatient revenues, which was largely due to a 12.1% increase in outpatient cases and the impact of a 10% overall price increase. As a result of revenue cycle improvements in managed care contracting, up-front collections and other areas, there was a \$2.7 million decrease in charity and bad debt expense in fiscal year 2007. Revenue Cycle Management will remain a central focus of the organization.

Operating Expenses increased by approximately \$18.4 million, or 4.2%. Salaries and wages increased by approximately \$10.4 million, fringe benefits decreased by approximately \$7.2 million, supplies increased by approximately \$4.9 million, purchased services increased by approximately \$9.5 million, professional fees increased by approximately \$0.9 million, the State of Florida Medical Assistance Assessment increased by approximately \$0.2 million, and depreciation decreased by approximately \$0.4 million.

Salaries and Wages, as noted earlier, increased as a result of a rise in the hospital average hourly wage and an increase in the number of hospital FTEs per adjusted occupied bed. The Hospital's average hourly rate of pay increased by approximately 1.8% during fiscal year 2007. Hospital FTEs increased from 2,872 to 2,953 from fiscal year 2006 to fiscal year 2007. In addition to the hospital, increases in home health and Nursing and Rehabilitation Center costs largely related to volume increases and regulatory requirements and increases in the physicians' divisions related to new or expanded services and offices as well as the functioning of the at-risk pay model which rewards productivity and overhead cost control. Total System FTEs increased 3.0% from 3,433 in fiscal year 2006 to 3,535 in fiscal year 2007.

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Fringe Benefits as a percentage of salaries and wages decreased from 29% to 24%. The largest decreases were approximately \$6.9 million in self-insured health plan costs and \$0.7 million in retirement expenses.

Supplies Expenses rose by approximately \$4.9 million. Supplies expense as a percentage of net patient revenue remained stable in fiscal year 2007.

Purchased Services and Professional Fees increased as a result of several factors, including:

- The use of Hospital traveling nurses increased by 18 full-time staff members and the rate paid to them increased by approximately 7.1%. These factors increased purchased services by approximately \$2.7 million.
- An increase of \$1.2 million for business development and growth costs.
- An increase of \$0.7 million related to the expansion of the federal grant funded Early Steps program.
- An increase of \$2.4 million related to building rent, largely for the new Institute for Advanced Medicine.
- An increase of \$0.8 million for equipment rent related to imaging equipment leases.
- An increase of \$0.7 million in repairs and maintenance costs.
- A \$2.7 million decrease in self insurance professional liability expenses related to historical claims experience.
- An increase of \$0.9 million in physician fees related to emergency coverage for specialists and other physicians.

As a result of the above-noted changes in operating costs, operating cost per adjusted admission, adjusted for the increase in case mix index, increased 5.0% in fiscal year 2007.

Nonoperating Income increased by approximately \$14.6 million in fiscal year 2007. The increase is largely comprised of increases in ad valorem tax revenues and investment income, partially offset by unrealized negative changes in the market value of interest rate swaps. Realized nonoperating income increased by approximately \$25.4 million. Ad valorem taxes increased approximately \$20.8 million due to an increase in the Millage rate and increasing market values of Sarasota County real estate. The System's Board levied a 1.0 mills ad valorem tax in fiscal year 2007, up from 0.800 mills in fiscal year 2006. The levy by law cannot exceed 2.0 mills. Investment income increased approximately \$6.3 million as a result of increased interest rates and higher levels of invested funds. Interest expense increased approximately \$0.3 million. Unrealized changes in the market value of investments improved by \$0.8 million. The market value of interest rate swaps decreased by approximately \$4.6 million compared to the increase of \$7.1 million in fiscal year 2006.

Excess of Revenues over Expenses for fiscal year 2007 was approximately \$43.3 million, versus an excess of revenues over expenses in fiscal year 2006 of approximately \$27.3 million. The \$16.0 million improvement is a result of revenues increasing by approximately \$19.8 million, operating expenses increasing by approximately \$18.4 million, realized nonoperating income increasing by approximately \$25.4 million, and unrealized nonoperating items decreasing by \$10.9 million.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2008 and 2007

(Unaudited)

Balance Sheets

The following table is a summary of the balance sheets as of September 30, 2008 and 2007 (in thousands):

	<u>2008</u>	<u>2007</u>	<u>Change</u>	<u>% Change</u>
Cash and cash equivalents	\$ 35,707	26,468	9,239	34.9%
Patient accounts receivable, net	48,983	48,662	321	0.7
Other current assets	<u>21,946</u>	<u>24,044</u>	<u>(2,098)</u>	<u>(8.7)</u>
Total current assets	106,636	99,174	7,462	7.5
Restricted and board designated investments	522,050	497,526	24,524	4.9
Capital assets, net	287,865	280,467	7,398	2.6
Other assets	<u>12,384</u>	<u>26,765</u>	<u>(14,381)</u>	<u>(53.7)</u>
Total assets	<u>\$ 928,935</u>	<u>903,932</u>	<u>25,003</u>	<u>2.8%</u>
Current liabilities	\$ 77,792	79,533	(1,741)	(2.2)%
Long-term liabilities	<u>390,335</u>	<u>378,281</u>	<u>12,054</u>	<u>3.2</u>
Total liabilities	<u>468,127</u>	<u>457,814</u>	<u>10,313</u>	<u>2.3</u>
Net assets:				
Unrestricted	496,762	491,897	4,865	1.0
Invested in capital assets, net of related debt	(39,244)	(50,172)	10,928	(21.8)
Restricted	<u>3,290</u>	<u>4,393</u>	<u>(1,103)</u>	<u>(25.1)</u>
Total net assets	<u>460,808</u>	<u>446,118</u>	<u>14,690</u>	<u>3.3</u>
Total liabilities and net assets	<u>\$ 928,935</u>	<u>903,932</u>	<u>25,003</u>	<u>2.8%</u>

The System's cash, restricted investments and board designated investments totaled \$557.8 million, versus long term debt of \$365.6 million. The number of days cash on hand was 384 which exceeds the median of 198 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single state healthcare systems (2008 median, based on 2007 data).

Current Assets increased by approximately \$7.5 million as compared to September 30, 2007. Cash and cash equivalents increased by approximately \$9.2 million and patient accounts receivable increased by approximately \$0.3 million. These increases were partially offset by an approximately \$2.1 million decrease in other current assets.

Restricted Investments and Board Designated Investments increased \$24.5 million as a result of the net positive cash flows from operating and nonoperating activities, partially offset by the \$13.6 million unrealized losses in the market value of investments.

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(Unaudited)

Capital Assets increased by approximately \$7.4 million in fiscal year 2008, or 2.6%, increasing from approximately \$280.5 million to approximately \$287.9 million. Approximately \$47.9 million of capital additions occurred during fiscal year 2008, compared to \$43.0 million in fiscal year 2007. The additions were largely offset by annual depreciation. Of the \$47.9 million in additions, the largest projects accounted for about \$29.8 million of expenditures: \$12.8 million of design, engineering and construction costs for the relocation of the central energy plant on the main campus and construction of a new bed tower; \$5.9 million for the early buyout of operating leases for various imaging equipment; \$5.8 million for upgrades to Information Systems infrastructure and various clinical systems; \$2.4 million for décor upgrades and relocations related to the Master Facility Plan; \$1.6 million for a DaVinci Robotic Surgery System; \$0.7 million for replacement of lab equipment; and \$0.6 million for ambulatory clinical offices. Expected capital expenditures for fiscal year 2009 are approximately \$106 million, and consist primarily of the relocation of a central energy plant on the main campus, an ambulatory facility in southern Sarasota County, infrastructure and facility renovations, information systems technology acquisitions, purchases of medical and nonmedical equipment, and various growth projects.

Other Assets, Including Interest Rate Swaps decreased by approximately \$14.4 million, which includes a decrease in the fair market value of interest rate swaps of approximately \$10.2 million. (The total decrease in the market value of interest rate swaps was 34.2 million, but only \$10.2 million of the decrease impacted assets. The balance of the decrease impacted the change in long-term liabilities.) Deferred bond issuance costs decreased \$4.4 million as a result of the refunding of the Series 2003A and 2007A bonds and the issuance of the 2008A and 2008B bonds.

Current Liabilities decreased approximately \$1.7 million, primarily due to a decrease in the liability for estimated Medicare and Medicaid settlements.

Long-term Liabilities increased \$12.1 million, as a result of the decrease in the market value of interest rate swaps, partially offset by net reductions of long-term debt. Long-term debt (including current portion) had a net decrease of approximately \$12.6 million due to scheduled principal payments of approximately \$7.4 million and refundings of bonds which resulted in the deferred losses totaling approximately \$5.3 million. The refundings of the Series 2003A and Series 2007A bonds were accomplished in September 2008 with the respective issuances of the Series 2008A and Series 2008B bonds; these bonds were issued at the same par amount and amortization schedule as the refunded bonds.

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Management's Discussion and Analysis

September 30, 2008 and 2007

(Unaudited)

The following table is a summary of the balance sheets as of September 30, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>% Change</u>
Cash and cash equivalents	\$ 26,468	25,359	1,109	4.4%
Patient accounts receivable, net	48,662	54,581	(5,919)	(10.8)
Other current assets	<u>24,044</u>	<u>19,616</u>	<u>4,428</u>	<u>22.6</u>
Total current assets	99,174	99,556	(382)	(0.4)
Restricted and board designated investments	497,526	465,546	31,980	6.9
Capital assets, net	280,467	272,994	7,473	2.7
Other assets	<u>26,765</u>	<u>28,168</u>	<u>(1,403)</u>	<u>(5.0)</u>
Total assets	\$ <u>903,932</u>	<u>866,264</u>	<u>37,668</u>	<u>4.3%</u>
Current liabilities	\$ 79,533	85,565	(6,032)	(7.0)%
Long-term liabilities	<u>378,281</u>	<u>380,497</u>	<u>(2,216)</u>	<u>(0.6)</u>
Total liabilities	<u>457,814</u>	<u>466,062</u>	<u>(8,248)</u>	<u>(1.8)</u>
Net assets:				
Unrestricted	491,897	404,108	87,789	21.7
Invested in capital assets, net of related debt	(50,172)	(51,361)	1,189	(2.3)
Restricted	<u>4,393</u>	<u>47,455</u>	<u>(43,062)</u>	<u>(90.7)</u>
Total net assets	<u>446,118</u>	<u>400,202</u>	<u>45,916</u>	<u>11.5</u>
Total liabilities and net assets	\$ <u>903,932</u>	<u>866,264</u>	<u>37,668</u>	<u>4.3%</u>

The System's cash, restricted investments and board designated investments totaled \$524.0 million, versus long term debt of \$378.3 million. The number of days cash on hand was 355 which exceeds the median of 200 days cash on hand for Moody's Investor Services (Moody's) "A1" rated, freestanding hospitals and single state healthcare systems (2007 median, based on 2006 data).

Current Assets decreased by approximately \$0.4 million as compared to September 30, 2006. Patient accounts receivable decreased by approximately \$5.9 million, mainly due to the aforementioned emphasis on revenue cycle initiatives.

Restricted Investments and Board Designated Investments increased \$32.0 million as a result of the net positive flows from operating and nonoperating activities, the issuance of the Series 2007 bonds, and the \$2.1 million unrealized improvement in the market value of investments, partially offset by the use of restricted investments for the redemption of the Series 1985 crossover bonds.

Capital Assets increased by approximately \$7.5 million in fiscal year 2007, or 2.7%, increasing from approximately \$273.0 million to approximately \$280.5 million. Approximately \$43.0 million of capital additions

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

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(Unaudited)

occurred during fiscal year 2007, compared to \$36.4 million in fiscal year 2006. The additions were largely offset by annual depreciation. Of the \$43.0 million in additions, the largest projects accounted for about \$26.9 million of expenditures: \$7.1 million for the purchase of land in southern Sarasota County; \$5.7 million related to the new Institute for Advanced Medicine; \$4.1 million of design and engineering costs for the relocation of the central energy plant on the main campus and construction of a new bed tower; \$2.5 million for upgrades to Information Systems infrastructure; \$1.6 million for completion of the Emergency Care Center (ECC) expansion; \$1.5 million for a nuclear medicine camera; \$1.4 million for replacement of a cardiac catheterization lab; \$1.2 million for ambulatory clinical offices at Blackburn Point; \$0.9 million related to the implementation of a document imaging system; and \$0.9 million related to opening a walk-in center in the Gulf Gate area. Expected capital expenditures for fiscal year 2008 are approximately \$92 million, and consist primarily of the relocation of a central energy plant on the main campus, an ambulatory facility in Manatee County, infrastructure and facility renovations, information systems technology acquisitions, purchases of medical and nonmedical equipment, and various growth projects throughout Sarasota County.

Other Assets, Including Interest Rate Swaps decreased by approximately \$1.4 million, which includes a decrease in the fair market value of interest rate swaps of approximately \$4.6 million. Deferred bond issuance costs increased \$4.3 million as a result of the issuance of the Series 2007A and 2007B bonds.

Current Liabilities decreased approximately \$6.0 million, primarily due to a decrease in employee compensation payable and decreases in accounts payable.

Long-term Liabilities decreased \$2.2 million, as a result of the redemption of the Series 1985 bonds and the defeasance of the Series 1996A and 1997B bonds in addition to maturities of long term debt, partially offset by the issuance of the Series 2007A and 2007B bonds.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management’s Discussion and Analysis

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(Unaudited)

Profitability, Liquidity and Capital Ratios

The following table outlines ratios monitored by the District as compared to Moody’s “A1” rated, freestanding hospitals and single state healthcare systems:

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2007 Moody’s A1 Median</u>
Profitability ratios:				
Operating margin	4.6%	4.0%	0.1%	3.8%
Excess margin	10.0%	7.9%	3.5%	6.7%
Return on assets	6.6%	5.3%	2.3%	5.8%
Total EBIDA%	17.9%	16.3%	12.5%	n/a
Operating cash flow margin	13.0%	12.7%	9.4%	10.5%
Liquidity ratios:				
Days cash on hand	384	355	347	198
Net days in receivables	37	37	43	49
Capitalization ratios:				
Maximum debt service coverage ratio (Board-Obligated Group-for covenants)	4.4	3.7	2.9	5.3
Maximum debt service coverage ratio (system)	4.4	3.7	2.8	5.3
Cash to debt	141%	124%	132%	153%

(EBIDA – Earnings Before Interest, Depreciation and Amortization)

Discussion of Ratios

To be consistent with Moody’s calculations, tax revenues are considered operating revenues and interest expense and bad debt expense are considered operating expenses for the ratio calculations above.

Overall, profitability, liquidity and capitalization ratios improved as a result of the 2008 financial performance.

In April 2008, Fitch Ratings upgraded the underlying credit ratings on the District’s outstanding bonds to “A+” from “A” and assigned rating outlook of “Stable”. In May 2008, Moody’s Investors Services affirmed its A2 rating on the District’s outstanding bonds and improved its rating outlook to “Positive” from “Stable”. Both rating agencies noted the District’s improved operating performance, strong liquidity, and strong service area characteristics.

Management has set targets for improved financial results in fiscal year 2009 as a result of a continued focus on revenue cycle and operational improvements. The budget for fiscal year 2009 calls for a 3.2% operating margin. There continues to be an emphasis on meeting overall budget goals and exceeding volume targets, in order to align strategic opportunities with operational and financing capacity.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Management's Discussion and Analysis

September 30, 2008 and 2007

(Unaudited)

Contacting the District for Additional Financial Information

This financial report is intended to provide our citizens, customers and creditors with a general overview of the System's finances and to demonstrate the Sarasota County Public Hospital District's accountability for the tax funding it receives. You may access the System's annual financial information via our website, www.smh.com. Sarasota Memorial Health Care System has engaged Digital Assurance Certification, LLC (DAC), an Ernst & Young LLP Company, as its Investment Relations Provider. To view quarterly financial information and additional detailed secondary market disclosure information, please visit www.dacbond.com. If you have any questions regarding this report or need additional information, contact the District's Corporate Finance Department at Sarasota Memorial Hospital, Attention: Controller, 1700 S. Tamiami Trail, Sarasota, Florida, 34239.



KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

Board Members
Sarasota County Public Hospital District:

We have audited the accompanying balance sheets of Sarasota County Public Hospital District (the District) as of September 30, 2008 and 2007 and the related statements of operations and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District at September 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1(d) and 7 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Number 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits other than Pensions*, on October 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the schedule of funding progress on pages 6 through 21 and 49, and 50, respectively, are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement



and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining balance sheet information, combining statement of operations and changes in net assets information, letter of transmittal, and budgetary comparison schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining balance sheet information and combining statement of operations and changes in net assets information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The letter of transmittal and budgetary comparison schedule have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

January 16, 2009
Certified Public Accountants

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Balance Sheets

September 30, 2008 and 2007

Assets	2008	2007
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	\$ 35,707,191	26,468,043
Patient accounts receivable, less allowance for uncollectible accounts of approximately \$23,241,000 in 2008 and \$20,145,000 in 2007	48,982,568	48,661,794
Inventories of supplies	8,014,329	7,647,954
Prepaid expenses and other assets	10,984,991	8,859,191
Estimated Medicare and Medicaid settlements	—	4,544,873
Due from related organizations	2,946,459	2,991,961
	<hr/>	<hr/>
Total current assets	106,635,538	99,173,816
Restricted investments	43,529,583	54,316,283
Board designated investments	478,520,734	443,209,344
Capital assets, net	287,865,117	280,467,066
Other assets	12,384,189	16,568,083
Interest rate swaps	—	10,197,877
	<hr/>	<hr/>
Total assets	\$ 928,935,161	903,932,469
	<hr/> <hr/>	<hr/> <hr/>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 16,861,945	18,527,285
Employee compensation and benefits payable	28,545,438	28,060,789
Other accrued expenses	17,116,256	15,417,487
Estimated Medicare and Medicaid settlements	2,661,545	4,569,177
Due to related organizations	126,330	99,949
Current portion of State of Florida medical assistance assessment	5,214,661	5,303,316
Current portion of long-term debt	7,266,053	7,555,125
	<hr/>	<hr/>
Total current liabilities	77,792,228	79,533,128
Long-term debt, less current portion	358,301,071	370,535,921
State of Florida medical assistance assessment, less current portion	2,628,790	2,583,673
Deferred revenue and other long-term liabilities	4,977,144	5,161,592
Interest rate swaps	24,427,885	—
	<hr/>	<hr/>
Total liabilities	468,127,118	457,814,314
	<hr/>	<hr/>
Commitments and contingencies		
Net assets:		
Unrestricted	496,761,749	491,896,601
Invested in capital assets, net of related debt	(39,243,720)	(50,171,570)
Restricted	3,290,014	4,393,124
	<hr/>	<hr/>
Total net assets	460,808,043	446,118,155
	<hr/>	<hr/>
Total liabilities and net assets	\$ 928,935,161	903,932,469
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to basic financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Operations and Changes in Net Assets

Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating revenues:		
Net patient service revenue, net of provision for bad debts of \$57,243,607 in 2008 and \$60,895,820 in 2007	\$ 432,668,963	418,592,608
Other revenue	17,831,033	17,396,779
Total operating revenues	<u>450,499,996</u>	<u>435,989,387</u>
Operating expenses:		
Salaries, wages, and fringe benefits	246,050,660	233,533,458
Supplies	94,108,614	95,710,859
Purchased services	77,073,646	77,029,485
Professional fees	11,415,615	10,411,969
State of Florida medical assistance assessment	4,943,259	5,167,346
Depreciation	32,286,719	33,770,440
Total operating expenses	<u>465,878,513</u>	<u>455,623,557</u>
Operating loss	<u>(15,378,517)</u>	<u>(19,634,170)</u>
Nonoperating realized items:		
Ad valorem tax	56,511,960	56,274,898
Interest expense	(15,312,160)	(14,271,386)
Investment income	20,453,176	25,183,648
Termination of interest rate swap	807,600	—
Other nonoperating income (expense)	12,617,689	(1,745,929)
Total nonoperating realized items	<u>75,078,265</u>	<u>65,441,231</u>
Excess of revenues over expenses before nonoperating unrealized items	<u>59,699,748</u>	<u>45,807,061</u>
Nonoperating unrealized items:		
Unrealized (losses) gains on investments	(13,566,133)	2,087,768
Changes in value of interest rate swaps	(34,201,218)	(4,591,324)
Total nonoperating unrealized items	<u>(47,767,351)</u>	<u>(2,503,556)</u>
Excess of revenues over expenses	11,932,397	43,303,505
Other changes in net assets:		
Contributions restricted for capital purposes	2,757,491	2,536,597
Other	—	75,845
Increase in net assets	14,689,888	45,915,947
Net assets, beginning of year	446,118,155	400,202,208
Net assets, end of year	\$ <u>460,808,043</u>	<u>446,118,155</u>

See accompanying notes to basic financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Statements of Cash Flows

Years ended September 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Received from patient care services	\$ 434,706,845	419,330,545
Received from nonpatient sources	17,737,602	16,320,752
Payments to employees	(245,720,089)	(248,201,617)
Payments to suppliers	(192,322,792)	(178,995,147)
Net cash provided by operating activities	<u>14,401,566</u>	<u>8,454,533</u>
Cash flows from noncapital financing activities:		
Ad valorem taxes	56,494,354	56,274,898
Net proceeds from donations received (noncapital)	422,067	462,460
Grants and other noncapital items	(782,820)	(1,773,105)
Net cash provided by noncapital financing activities	<u>56,133,601</u>	<u>54,964,253</u>
Cash flows from capital and related financing activities:		
Proceeds from issuance of long term debt	158,741,000	166,042,201
Payment of bond issue costs	(1,123,750)	(4,315,918)
Proceeds from donations restricted for capital purposes	4,637,080	2,218,251
Interest rate swap payments received, net	2,716,784	(847,308)
Interest received on bond funds held by trustee	1,055,767	2,148,580
Purchases of capital assets	(47,918,648)	(41,856,645)
Proceeds from disposals of capital assets	22,192,099	—
Interest payments	(14,087,391)	(12,395,416)
Repayment of long-term debt	(166,599,998)	(166,570,716)
Net cash used in capital and related financing activities	<u>(40,387,057)</u>	<u>(55,576,971)</u>
Cash flows from investing activities:		
Investment income received	17,027,943	22,639,384
Purchase of investments	(29,822,925,210)	(12,238,323,304)
Proceeds from sales and maturities of investments	29,785,886,604	12,208,614,196
Net cash used in investing activities	<u>(20,010,663)</u>	<u>(7,069,724)</u>
Increase in cash and cash equivalents	10,137,447	772,091
Cash and cash equivalents, beginning of year	28,191,670	27,419,579
Cash and cash equivalents, end of year	\$ <u>38,329,117</u>	<u>28,191,670</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash and cash equivalents in current assets	\$ 35,707,191	26,468,043
Cash and cash equivalents in restricted investments	2,621,926	1,723,627
Total cash and cash equivalents	\$ <u>38,329,117</u>	<u>28,191,670</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (15,378,517)	(19,634,170)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	32,286,719	33,770,440
Provision for bad debts	57,243,607	60,895,820
Changes in:		
Patient accounts receivable	(57,564,381)	(54,976,571)
Other current and noncurrent assets	1,658,565	(3,635,458)
Current liabilities and other liabilities	(3,844,427)	(7,965,528)
Net cash provided by operating activities	\$ <u>14,401,566</u>	<u>8,454,533</u>

See accompanying notes to basic financial statements.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

(1) Operations, Organization and Summary of Significant Accounting Policies

(a) *Operations and Organization*

The Sarasota County Public Hospital District (the District) was established in 1949 by a special act of the Florida Legislature which created and incorporated a special tax district to be known as Sarasota County Public Hospital District, which includes all of Sarasota County, and authorized the Sarasota County Public Hospital District to levy property taxes for various purposes. The District's primary function is to operate Sarasota Memorial Hospital (the Hospital), Sarasota Memorial Nursing and Rehabilitation Center (NRC) and other healthcare delivery services in Sarasota County. The District added Varsity Health Charter Plan (the Charter Plan) in fiscal 2003 for the purpose of addressing the growing number of uninsured workers in Sarasota County. The Charter Plan began enrolling members in fiscal 2004.

The financial statements include the accounts of the Sarasota County Public Hospital District and the following blended component units of the District: SMH Health Care, Inc., Sarasota Memorial Home Care, Inc., and SMH Physician Services, Inc. (PSI). These entities are considered blended component units, as the governing bodies of these entities are substantially the same as the District and the entities provide services almost entirely to the District or benefit the District even though they do not provide services directly to the District. The entities are hereafter referred to collectively as the "District." All intercompany accounts and transactions have been eliminated between the District and its blended component units.

(b) *Mission Statement*

The mission of the District is to provide health care services which excel in caring, quality, and innovation.

Only those activities directly associated with the furtherance of this purpose are considered operating activities. Investment income is included in nonoperating income and interest expense on borrowed funds is shown as a separate nonoperating item in the financial statements.

Activities that result in gains or losses unrelated to the District's primary mission are considered to be nonoperating and include ad valorem taxes, unrealized gains (losses) on investments, restricted and unrestricted contributions, gains and losses in the market value of interest rate swaps, grants paid, and other nonoperating income and expenses including gains and losses on disposal of capital assets.

(c) *Use of Estimates*

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

(d) *Accounting Standards*

The District recognizes revenues and expenses on the accrual basis of accounting in accordance with the standards established by the Governmental Accounting Standards Board (GASB) and certain provisions in the "Health Care Organizations" audit and accounting guide published by the American Institute of Certified Public Accountants. As provided for by GASB Statement No. 20, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

In July 2004, GASB issued Statement number 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 45 establishes standards for the measurement, recognition, and display of post-employment benefit expenses and expenditures and related liabilities or assets other than pensions in the financial reports of state and local governmental employers. The District adopted GASB 45 on October 1, 2007. Please refer to note 7, Postemployment Benefits, for a further discussion of GASB 45.

In July 2005, GASB issued Statement number 47 (GASB 47), *Accounting for Termination Benefits*. GASB 47 establishes accounting standards for the recognition of voluntary termination benefits (for example, early retirement incentives) and involuntary termination benefits (for example, severance benefits) in the financial reports of state and local governmental employers. The District adopted GASB 47 in fiscal year 2007 and there was no material impact on the financial statements.

In September 2006, GASB issued Statement number 48 (GASB 48), *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. GASB 48 establishes criteria and reporting requirements which clarify situations when governments exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The question addressed by this statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. The District adopted GASB 48 in fiscal year 2008 and there was no material impact on the financial statements.

In November 2006, GASB issued Statement number 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*. GASB 49 addresses accounting and financial reporting standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention and control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. GASB 49 is effective for the District beginning in the fiscal year ending September 30, 2009. The District does not expect adoption of GASB 49 to have a material impact on its financial condition, results of operations or cash flows.

In May 2007, GASB issued Statement number 50 (GASB 50), *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27. GASB 50 more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits. The District adopted

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

GASB 50 in fiscal year 2008 and there was no material impact on the financial statements other than revision to certain disclosures in the notes to the basic financial statements.

In June 2007, GASB issued Statement number 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*. GASB 51 establishes accounting and financial reporting requirements for the recognition, initial measurement, and amortization of intangible assets. GASB 51 is effective for the District beginning in the fiscal year ending September 30, 2010. The District does not expect the adoption of GASB 51 to have a material impact on its financial condition, results of operations or cash flows.

(e) Community Programs

The District is a public health care provider established to meet the needs of Sarasota County. Accordingly, services are being provided to the community at no charge or for which only partial payments are received. The following is a summary of the District's community programs provided during the years ended September 30, 2008 and 2007:

	2008	2007
Bad debts	\$ 57,244,000	60,896,000
Traditional charity care	25,977,000	28,575,000
Medicaid losses	8,073,000	5,588,000
Emergency care center call pay and subsidies	3,374,000	3,019,000
Anesthesiologist, Hospitalist and Psychiatric coverage	4,194,000	3,776,000
Clinics and other community programs	2,457,000	2,004,000
Indigent care fund payments	4,943,000	5,167,000

The District provides traditional charity care to those patients who meet certain criteria under its charity care policy. A patient is classified as a charity patient by reference to certain established policies of the District. Amounts determined to qualify as traditional charity care are not reported as revenue. Payments received from the Medicaid program are significantly less than established patient charges and are less than management's estimate of the costs of providing those services. An assessment of one percent for net outpatient revenues, one and one half percent for net inpatient revenues and 0.04% of total operating expenses is assessed to the Hospital to help fund the Florida Medicaid and Indigent Care program.

(f) Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and the provision for bad debts.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

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September 30, 2008 and 2007

The difference between customary charges and the contractually established rates is accounted for as a contractual adjustment. The District's customary charges, contractual adjustments, and provision for bad debts for the years ended September 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Gross patient charges	\$ 1,360,854,276	1,330,131,471
Contractual adjustments	(870,941,706)	(850,643,043)
Provision for bad debts	<u>(57,243,607)</u>	<u>(60,895,820)</u>
Net patient service revenue	<u>\$ 432,668,963</u>	<u>418,592,608</u>

The District has agreements with third-party payors that provide for payment to the District at amounts different from its established rates. A summary of the basis of payment with major third-party payors follows:

Medicare

Most services including inpatient acute care services, inpatient rehabilitative services, skilled nursing services, hospital outpatient services and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Psychiatric services, limited outpatient services rendered to Medicare beneficiaries, and direct graduate medical education costs are paid based upon a cost reimbursement methodology or blended cost methodology. The Hospital is reimbursed for cost reimbursable items at a tentative interim rate with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary.

The Hospital's Medicare cost reports have been audited and final settlements determined by the Medicare intermediary for all years through September 30, 2006. Retroactive adjustments for cost reports and other settlements are accrued on an estimated basis in the period when the related services are rendered and adjusted in future periods when final settlements are determined. Final amounts settled related to prior years resulted in an increase in net patient service revenue of \$3,767,000 and \$765,000 for the years ended September 30, 2008 and 2007, respectively.

Medicaid

Inpatient and outpatient services (except for laboratory and pathology services) rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology subject to ceilings. Reimbursable cost is determined in accordance with the principles of reimbursement established by the Florida Title XIX Hospital Reimbursement Plan, supplemented by the Medicare Principles of Reimbursement. Interim rates are tentatively established on an individual per diem basis for each hospital based on unaudited cost reports with exceptions. Final settlement is determined when the prospectively determined rate is adjusted after the intermediary audit of the Medicare and Medicaid cost report that was used to determine the prospective rate. Retroactive adjustments for interim rate changes anticipated after the intermediary audit of the cost report are accrued on an estimated basis in the period when final settlements are determined. The District's Medicaid rates are based on the

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

Medicare/Medicaid cost report periods ending through September 30, 2006 which has been audited by the fiscal intermediary through September 30, 2004.

The District's classification of patients and the appropriateness of their admission are subject to review by the fiscal intermediaries administering the Medicare and Medicaid programs.

Laws and regulations governing the Medicare and Medicaid Programs are complex and subject to interpretation. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future governmental review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid Programs. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Other

The District has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these arrangements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined rates. Some of these arrangements provide for review of paid claims for compliance with the terms of the contract and result in retroactive settlement with third parties. Retroactive adjustments for other third party claims are recorded in the period when final settlement is determined.

(g) *Cash and Cash Equivalents*

The District considers cash on hand, money in checking accounts, time deposits, short-term unrestricted fund investments, and short-term assets whose use is restricted but available for current liabilities with a maturity of three months or less when purchased to be cash equivalents.

(h) *Investments and Investment Income*

Investment securities held by the District are carried at approximate fair value at September 30, 2008 and 2007. Realized gains and losses, based on the specific identification method are included in investment income under nonoperating realized items in the statements of operations and changes in net assets. Unrealized gains and losses are included in the nonoperating unrealized items section in the statements of operations and changes in net assets.

(i) *Inventories of Supplies*

Inventories of supplies are stated at the lower of cost or market, on a first-in, first-out basis.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

(j) Capital Assets

Capital assets have been recorded at historical cost or fair market value at date of donation. Capital purchases above \$1,000 are capitalized. Major asset classifications and estimated useful lives are generally in accordance with those recommended by the American Hospital Association. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the assets as summarized below:

	Estimated useful lives (years)
Land improvements	3 – 25
Buildings	5 – 40
Leasehold improvements	3 – 25
Moveable equipment	2 – 25

Routine maintenance, repairs, renewals and replacement costs are charged against operations. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized, as is interest incurred during the period prior to the related assets being placed in service. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in other nonoperating income.

(k) Debt Issue Costs and Deferred Gains and Losses on Refunding

Debt issue costs, which are included in other assets, are amortized over the term of the related obligations using the straight-line method, which approximates the effective interest method. Amortization of debt issue costs is included in interest expense.

Deferred gains and losses on refunding, which are included in long term debt, are amortized over the shorter of the remaining life of the old debt or the life of the new debt using the straight-line method, which approximates the effective interest method. Amortization of deferred gains and losses on refunding is included in interest expense.

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Notes to Financial Statements

September 30, 2008 and 2007

(l) Other Noncurrent Liabilities

Other noncurrent liabilities consist of State of Florida medical assistance assessment and deferred revenue and other long-term liabilities. The changes in other noncurrent liabilities for the years ended September 30, 2008 and 2007 are as follows:

	2008			Noncurrent liabilities September 30, 2008
	Noncurrent liabilities September 30, 2007	Accrual/ Assessments	Payments	
State of Florida medical assistance assessment	\$ 2,583,673	5,031,914	(4,986,797)	2,628,790
Deferred revenue and other long-term liabilities	5,161,592	282,236	(466,684)	4,977,144
Total	<u>\$ 7,745,265</u>	<u>5,314,150</u>	<u>(5,453,481)</u>	<u>7,605,934</u>
	2007			Noncurrent liabilities September 30, 2007
	Noncurrent liabilities September 30, 2006	Accrual/ Assessments	Payments	
State of Florida medical assistance assessment	\$ 2,498,114	6,279,281	(6,193,722)	2,583,673
Deferred revenue and other long-term liabilities	4,434,173	1,174,961	(447,542)	5,161,592
Total	<u>\$ 6,932,287</u>	<u>7,454,242</u>	<u>(6,641,264)</u>	<u>7,745,265</u>

(m) Net Assets

Net assets of the District are classified in three components. Net assets invested in capital assets net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any borrowings used to finance the purchase or construction of those assets. Restricted net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District, including amounts deposited with trustees as required by revenue bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

(n) Operating Revenues and Expenses

The District's statements of operations and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity, and include related grant revenues. Nonexchange revenues, including taxes, and contributions received for purposes

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

(o) *Income Taxes*

The District is organized as a political subdivision of the State of Florida and is not subject to federal and state income taxes.

SMH Health Care, Inc., Sarasota Memorial Home Care, Inc., and SMH Physician Services, Inc., have been recognized by the Internal Revenue Service (IRS) as tax-exempt organizations described in IRC Section 501(c)(3). Income earned by these organizations in furtherance of their tax-exempt purpose is exempt from federal and state income taxes.

(p) *Ad Valorem Taxes*

Tax monies received are based on assessments by the District to Sarasota County real property owners for purposes stated in the Millage resolutions. Ad valorem taxes are recorded in the period for which the taxes are levied and amounted to \$56,511,960 and \$56,274,898 for the years ended September 30, 2008 and 2007, respectively.

(q) *Derivative Instruments*

The District uses interest rate swaps, which are not designated as hedge instruments, to manage net exposure to interest rate changes related to its borrowings and to lower its overall borrowing costs. The derivative instruments are recorded as either assets or liabilities in the balance sheets at fair value. Gains and losses resulting from terminations of swaps, when they occur, are recognized as a component of nonoperating realized items in the accompanying statements of operations and changes in net assets. Gains and losses resulting from changes in fair value are recognized as a component of nonoperating unrealized items in the accompanying statements of operations and changes in net assets.

(r) *Impairment of Long-lived Assets*

Management evaluates whether there has been a significant unexpected decline in the utility of a capital asset that could indicate an impairment in the capital asset. If there is an indication that the asset may be impaired, the District follows GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* to determine if the impairment loss should be recognized. The amount of impairment, if any, is determined by comparing the historical carrying value of the asset to the valuation method which most appropriately reflects the decline in service utility of the capital asset. The District concluded that no impairments exist as of September 30, 2008 and 2007.

(s) *Reclassifications*

Certain items in the 2007 financial statements have been reclassified to conform to the 2008 presentation. The reclassifications had no effect on excess of revenues over expenses or changes in net assets.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

(2) Cash and Investments

(a) Cash Deposits

The District's governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories under Chapter 280 for the years ended September 30, 2008 and 2007. The District's nongovernmental bank balances were covered by federal depository insurance to the applicable limits for the years ended September 30, 2008 and 2007.

(b) Investments

Florida Statutes and the District's enabling legislation authorize the District to invest in obligations of the U.S. Government and certain of its agencies, certificates of deposit of qualified public depositories, certain bankers' acceptances, certain domestic commercial paper, corporate notes and bonds, interest bearing time deposits or savings accounts of qualified banks and savings and loans institutions, and repurchase and reverse repurchase agreements.

The fair values of short-term investments are estimated based on quoted market prices, which are generally equal to carrying amounts because of the short maturity of those instruments. The fair value of restricted investments and board designated investments are based on quoted market prices.

As of September 30, 2008, the District had cash and investments maturing as follows:

Cash and investment maturities					
	Fair value	Less than 1 year	1-5 Years	6-10 Years	More Than 10 Years
U.S. government securities	\$ 126,926,998	50,258,660	66,378,516	10,289,822	—
U.S. government agency securities	161,257,588	88,360,804	67,198,902	5,367,039	330,843
Commercial paper	19,653,418	19,653,418	—	—	—
Corporate bonds	160,091,460	26,131,136	78,646,481	55,313,843	—
Other, including bank deposits	89,828,044	89,828,044	—	—	—
Total cash and investments	<u>\$ 557,757,508</u>	<u>274,232,062</u>	<u>212,223,899</u>	<u>70,970,704</u>	<u>330,843</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

As of September 30, 2007, the District had cash and investments maturing as follows:

Cash and Investment maturities					
	Fair value	Less than 1 Year	1-5 Years	6-10 Years	More than 10 Years
U.S. government securities	\$ 74,797,349	41,434,439	20,098,353	13,264,557	—
U.S. government agency securities	136,412,377	57,477,356	73,926,997	5,008,024	—
Commercial paper	107,693,968	107,693,968	—	—	—
Corporate bonds	108,146,329	39,944,623	55,110,287	13,091,419	—
Other, including bank deposits	96,943,647	96,943,647	—	—	—
Total cash and investments	<u>\$ 523,993,670</u>	<u>343,494,033</u>	<u>149,135,637</u>	<u>31,364,000</u>	<u>—</u>

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy authorizes a strategic asset allocation that is designed to provide an optimal return over the District's investment horizon within the District's risk tolerance and cash requirements. The District's investment policy states that investment transactions shall be structured to minimize capital losses, whether from securities defaults or erosion of market value. To attain this objective, diversification is required in order to minimize potential losses on the portfolio.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the District's investment portfolio to maturities as follows:

Direct government obligations	10 years
U.S. government and U.S. government agency securities	10 years
Bankers acceptances	0.5 years
Commercial paper, corporate notes, and bonds	10 years
Certificate of deposits	0.5 years

Credit Risk – GASB No. 40 requires that disclosure be made as to the credit quality ratings of investments in debt securities except for obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy provides guidelines for its fund managers and lists specific allowable investments. The policy provides for the utilization of varying styles of managers so that portfolio diversification is maximized and total portfolio efficiency is enhanced.

The investment policy limits commercial paper investments to that of prime quality rated by at least two nationally recognized debt rating agencies in the highest letter and numerical rating of each agency. If not so rated, such prime quality commercial paper may be purchased if secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the two highest alphabetical categories from at least two nationally recognized debt rating agencies.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

The investment policy limits corporate debt investments to interest-bearing bonds, debentures and other such evidence of indebtedness with a fixed maturity of any domestic corporation within the United States which is listed on any one or more of the recognized national stock exchanges in the United States and conforms with the periodic reporting requirements under the Securities Exchange Act of 1934. Such obligation shall either carry ratings in one of the two highest classifications of at least two nationally recognized debt rating agencies; or be secured by a letter of credit provided by a commercial bank, which bank or its holding company carries a credit rating in one of the two highest alphabetical categories from at least two nationally recognized debt rating agencies. At September 30, 2008 and 2007, all investments in debt instruments were compliant with the investment policy requirements regarding credit ratings.

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the District's name.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The District's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At September 30, 2008, the District's deposits and investments were not exposed to custodial credit risk since the full amount was insured or registered, or securities held by the District or its agent, in the District's name. The District's investment policy states that District securities be held with a third party custodian and all securities purchased by, and all collateral obtained by, the District shall be properly designated as an asset of the District.

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Disclosure is required for investments in any one issuer that represent 5% or more of total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. The District's investment policy states that no single corporate fixed income issuer shall represent more than 10% of the portfolio. The policy further states that the District's investments shall be diversified to the extent practicable to control the risk of loss resulting from over concentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

(3) Restricted Investments and Board Designated Investments

Restricted investments and board designated investments as of September 30, 2008 and 2007 are as follows:

	2008	2007
Under bond indenture agreements held by trustees, at fair value plus accrued interest, held for:		
Plant replacement and expansion	\$ 38,458,287	47,452,410
Payment of principal and interest	1,621,906	2,099,530
Payment of bond issuance costs	82,107	467,459
	40,162,300	50,019,399
Restricted funds designated by donors or grantors, at fair value plus accrued interest, held for:		
Specific purposes	312,040	267,026
Plant replacement and expansion	3,055,243	4,029,858
	3,367,283	4,296,884
Total restricted investments	\$ 43,529,583	54,316,283
Unrestricted funds designated by the Board, at fair value plus accrued interest, held for:		
Capital improvements	\$ 478,520,734	443,209,344

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

(4) Capital Assets

The changes in capital assets for the years ended September 30, 2008 and 2007 are as follows:

	2008				
	Beginning balance	Additions	Transfers in/ Transfers Out	Disposals	Ending balance
Nondepreciable:					
Land	\$ 39,105,018	—	—	—	39,105,018
Land held for future expansion	28,082,268	—	—	—	28,082,268
Construction in progress	21,545,010	31,539,994	(15,206,591)	—	37,878,413
Total nondepreciable	88,732,296	31,539,994	(15,206,591)	—	105,065,699
Depreciable:					
Land improvements	19,707,907	105,072	(87,285)	—	19,725,694
Buildings	337,100,578	61,786	5,420,122	(27,463,331)	315,119,155
Leasehold improvements	5,622,249	—	—	(986,306)	4,635,943
Moveable equipment	243,847,378	16,211,796	9,873,754	(1,853,088)	268,079,840
Total depreciable	606,278,112	16,378,654	15,206,591	(30,302,725)	607,560,632
	695,010,408	47,918,648	—	(30,302,725)	712,626,331
Less accumulated depreciation	(414,543,342)	(32,286,719)	—	22,068,847	(424,761,214)
Capital assets, net	\$ 280,467,066	15,631,929	—	(8,233,878)	287,865,117
	2007				
	Beginning balance	Additions	Transfers in/ Transfers out	Disposals	Ending balance
Nondepreciable:					
Land	\$ 32,036,559	7,068,459	—	—	39,105,018
Land held for future expansion	28,082,268	—	—	—	28,082,268
Construction in progress	14,508,938	28,163,688	(19,695,318)	(1,432,298)	21,545,010
Total nondepreciable	74,627,765	35,232,147	(19,695,318)	(1,432,298)	88,732,296
Depreciable:					
Land improvements	17,108,980	33,540	2,565,387	—	19,707,907
Buildings	332,850,861	105,351	5,560,667	(1,416,301)	337,100,578
Leasehold improvements	4,387,397	—	1,234,852	—	5,622,249
Moveable equipment	228,864,126	7,680,565	10,334,412	(3,031,725)	243,847,378
Total depreciable	583,211,364	7,819,456	19,695,318	(4,448,026)	606,278,112
	657,839,129	43,051,603	—	(5,880,324)	695,010,408
Less accumulated depreciation	(384,845,611)	(33,770,440)	—	4,072,709	(414,543,342)
Capital assets, net	\$ 272,993,518	9,281,163	—	(1,807,615)	280,467,066

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

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The District has expansion and renovation programs involving various Hospital departments, patient care areas, ambulatory centers and support services, including a new energy center. Total estimated cost to complete all projects in progress is approximately \$85,800,000 as of September 30, 2008.

Depreciation expense was approximately \$32,287,000 and \$33,770,000 for the years ended September 30, 2008 and 2007, respectively.

(5) Long-Term Debt

The District was obligated under long-term debt as of September 30, 2008 and 2007 as follows:

	<u>2008</u>	<u>2007</u>
Sarasota County Public Hospital District, Municipal Inflation Linked Exempt Bonds Series 1997A, \$5,000,000 due October 1, 2020 and \$10,000,000 due October 1, 2021. Interest paid semi-annually in the sum of 2.05% plus or minus a floating rate which will increase or decrease each semi-annual period based on the CPI, as defined. Both components of the interest rates totaled 1.3% at September 30, 2008.	\$ 15,000,000	15,000,000
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Refunding Bonds, Series 1998A, due in annual amounts through 2015 at interest rates from 4.15% to 5.0% (less unamortized deferred amount on refunding of \$858,765 and \$920,312 at September 30, 2008 and September 30, 2007, respectively).	11,031,235	12,179,688
Sarasota County Public Hospital District, Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, due in annual amounts through 2028 at interest rates at an annual 2.5% (less unamortized deferred amount on refunding of \$429,947 and \$452,674 at September 30, 2008 and September 30, 2007, respectively).	111,570,053	113,547,326
Unamortized basis adjustment	<u>(5,226,704)</u>	<u>(5,468,084)</u>
	106,343,349	108,079,242
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2003A, due in annual amounts through 2037 at an interest rate of 3.78% at September 30, 2007.	—	77,725,000
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2007A, due in annual amounts through 2037 at variable interest rates, 3.95% at September 30, 2007 (less unamortized deferred amount on refunding of \$4,726,496 at September 30, 2007)	—	78,223,504

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

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	<u>2008</u>	<u>2007</u>
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2007B, due in annual amounts through 2037 at variable interest rates, 7.98% at September 30, 2008 (plus unamortized deferred amount on refunding of \$787,577 and \$814,735 at September 30, 2008 and September 30, 2007 respectively)	\$ 81,787,577	83,764,735
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2008A, due in annual amounts through 2037 at an interest rate of 6.95% at September 30, 2008. (less unamortized deferred amount on refunding of \$3,074,632 at September 30, 2008)	73,800,368	—
Sarasota County Public Hospital District, Variable Rate Demand Hospital Revenue Bonds, Series 2008B, due in annual amounts through 2037 at variable interest rates, 8.00% at September 30, 2008 (less unamortized deferred amount on refunding of \$6,616,300 at September 30, 2008)	75,108,700	—
Note payable to Ehlers Enterprises, LLP. and Charles F. Ison, due on July 24, 2026. Interest only payments are due monthly until July 24, 2011. Principal and interest is payable monthly beginning August 24, 2011 through July 24, 2026. Interest rate is 6%.	2,000,000	2,000,000
Other miscellaneous long term payables	386,101	245,100
Capital equipment leases, due in monthly principal and interest payments through 2010 at interest rates from 0.92% to 5.54%.	109,794	873,777
	<u>365,567,124</u>	<u>378,091,046</u>
Less current portion	<u>(7,266,053)</u>	<u>(7,555,125)</u>
	<u>\$ 358,301,071</u>	<u>370,535,921</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

Long-term debt activity for the years ended September 30, 2008 and 2007 were as follows:

	2008				Amounts due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Hospital Revenue Refunding Fixed Rate Bonds (1998A)	\$ 13,100,000	—	(1,210,000)	11,890,000	1,265,000
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	114,000,000	—	(2,000,000)	112,000,000	2,000,000
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	15,000,000	—	—	15,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2003A)	77,725,000	—	(77,725,000)	—	—
Hospital Revenue Variable Rate Demand Bonds (2007A)	82,950,000	—	(82,950,000)	—	—
Hospital Revenue Variable Rate Demand Bonds (2007B)	82,950,000	—	(1,950,000)	81,000,000	1,475,000
Hospital Revenue Variable Rate Demand Bonds (2008A)	—	76,875,000	—	76,875,000	875,000
Hospital Revenue Variable Rate Demand Bonds (2008B)	—	81,725,000	—	81,725,000	1,550,000
Ehlers note payable	2,000,000	—	—	2,000,000	—
Other miscellaneous payable	245,100	141,001	—	386,101	—
Capital leases payable	873,777	1,015	(764,998)	109,794	101,053
	<u>388,843,877</u>	<u>158,742,016</u>	<u>(166,599,998)</u>	<u>380,985,895</u>	<u>7,266,053</u>
Less basis adjustment amounts	(5,468,084)	241,380	—	(5,226,704)	—
Less deferred amount on refundings	<u>(5,284,747)</u>	<u>(5,293,532)</u>	<u>386,212</u>	<u>(10,192,067)</u>	<u>—</u>
Total long-term debt	\$ <u><u>378,091,046</u></u>	<u><u>153,689,864</u></u>	<u><u>(166,213,786)</u></u>	<u><u>365,567,124</u></u>	<u><u>7,266,053</u></u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

	2007				Amounts due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Hospital Revenue Variable Rate Demand Bonds (1985 A, B, C) \$	45,000,000	—	(45,000,000)	—	—
Hospital Revenue Variable Rate Demand Bonds (1996A)	60,600,000	—	(60,600,000)	—	—
Hospital Revenue Refunding Fixed Rate Bonds (1997B)	56,680,000	—	(56,680,000)	—	—
Hospital Revenue Refunding Fixed Rate Bonds (1998A)	14,255,000	—	(1,155,000)	13,100,000	1,210,000
Hospital Revenue Refunding Fixed Rate Bonds (1998B)	116,000,000	—	(2,000,000)	114,000,000	2,000,000
Municipal Inflation Linked Exempt Variable Rate Bonds (1997A)	15,000,000	—	—	15,000,000	—
Hospital Revenue Variable Rate Demand Bonds (2003A)	78,550,000	—	(825,000)	77,725,000	850,000
Hospital Revenue Variable Rate Demand Bonds (2007A)	—	82,950,000	—	82,950,000	1,225,000
Hospital Revenue Variable Rate Demand Bonds (2007B)	—	82,950,000	—	82,950,000	1,950,000
Ehlers note payable	2,000,000	—	—	2,000,000	—
Other miscellaneous payable	102,899	142,201	—	245,100	—
Capital leases payable	1,184,493	—	(310,716)	873,777	320,125
	<u>389,372,392</u>	<u>166,042,201</u>	<u>(166,570,716)</u>	<u>388,843,877</u>	<u>7,555,125</u>
Less basis adjustment amounts	(5,021,279)	—	(446,805)	(5,468,084)	—
Less deferred amount on refundings	<u>(3,316,976)</u>	<u>(2,182,692)</u>	<u>214,921</u>	<u>(5,284,747)</u>	—
Total long-term debt	<u>\$ 381,034,137</u>	<u>163,859,509</u>	<u>(166,802,600)</u>	<u>378,091,046</u>	<u>7,555,125</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

Maturities under the long-term debt agreements, including interest, described above are as follows:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
Year ending September 30:			
2009	\$ 22,538,986	7,266,053	15,272,933
2010	22,437,962	7,453,741	14,984,221
2011	22,437,033	7,757,904	14,679,129
2012	22,423,329	8,072,579	14,350,750
2013	22,815,509	8,808,633	14,006,876
2014-2018	111,558,453	47,098,039	64,460,414
2019-2023	115,595,246	61,944,944	53,650,302
2024-2028	111,220,217	72,654,002	38,566,215
2029-2033	104,849,144	82,565,000	22,284,144
2034-2038	83,749,073	77,365,000	6,384,073
	<u>\$ 639,624,952</u>	<u>380,985,895</u>	<u>258,639,057</u>

Debt service on the Series 1997A Bonds in the above table is based upon the execution of an interest rate exchange agreement in which the District will be paying rates based on the Securities Industry and Financial Markets Municipal Swap Index (SIFMA Index). The assumed rate to calculate debt service is the average rate for the year ended September 30, 2008. Debt service on the Series 2007B Bonds, the Series 2008A Bonds, and the Series 2008B Bonds in the above table is based upon the execution of interest rate exchange agreements in which the District will be paying fixed rates of 3.61%, 3.578%, and 3.598%, respectively.

All bonds were issued by the District pursuant to a Master Trust Indenture dated September 1, 1996, as supplemented and amended, between the District and U.S. Bank National Association as master trustee. As of September 30, 2008 and 2007, the District was the only member of the obligated group under the Master Trust Indenture, however, members may be admitted to the obligated group or may cease membership in accordance with the terms of the Master Trust Indenture.

On July 7, 1997, the District issued \$15,000,000 in Municipal Inflation Linked Exempt Bonds, Series 1997A, to refund existing debt at that time. The Series 1997A Bonds are collateralized by a municipal bond insurance policy.

During 1997, the District entered into two interest rate swap agreements. The first interest rate swap agreement has a notional amount of \$15,000,000 with reduction terms consistent with the retirement of the Series 1997A Bonds. Under the interest rate swap agreement, the District pays the SIFMA Index plus 4 basis points and receives the Municipal Inflation Linked Exempt rate consistent with the Series 1997A Bonds. The effect of the swap was a decrease of interest expense of approximately \$547,000 and \$131,000 for the years ended September 30, 2008 and 2007, respectively. The fair value of this swap was \$495,165 and \$1,767,113 at September 30, 2008 and 2007, respectively. The counterparty on this swap is Lehman Brothers Special Financing Inc. (LBSF). LBSF's guarantor, Lehman Brothers Holdings (LBH) filed for bankruptcy on September 14, 2008 placing LBSF in default on the agreement, a condition which existed at

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

September 30, 2008. The Lehman bankruptcy trustee is working to have creditworthy institutions assume Lehman's positions on the swap. The District does not anticipate the ultimate resolution of the assignment to have an adverse impact on its financial condition, results of operations or cash flows. Under the second interest rate swap agreement, the District paid the SIFMA Index plus 45 basis points and received a fixed rate consistent with the rate paid on the Series 1997B Bonds; these bonds were refunded in September 2007 and the interest rate swap agreement was terminated on October 1, 2007 resulting in a \$807,600 payment to the District.

During 1998, the District issued \$21,225,000 of Fixed Rate Hospital Revenue Refunding Bonds, Series 1998A, and \$120,000,000 of Fixed Rate Hospital Revenue Refunding Bonds, Series 1998B, to refund existing debt at that time.

Also during 1998, the District entered into an interest rate swap agreement having a notional amount of \$120,000,000 and reduction terms consistent with the retirement of the Series 1998B Bonds. Under the interest rate swap agreement, the District pays the rate based on the SIFMA Index and receives a fixed rate. The effect of the swap was a reduction in interest expense for the years ended September 30, 2008 and 2007 of approximately \$2,529,000 and \$1,818,000, respectively. The fair value of this swap was \$10,590,859 and \$8,691,046 at September 30, 2008 and 2007, respectively.

Additionally, under the interest rate swap agreement for the Series 1998B Bonds, the counterparty has the option to terminate the interest rate swap. Currently, no determination can be made by management relating to the probability of the termination option being exercised. In exchange for granting the option, the District receives a semi-annual payment of 8 basis points calculated on the outstanding Series 1998B Bonds, the issuance costs of the Series 1998B Bonds paid by the counterparty to the interest rate swap, and, in the event the option is exercised, the reasonable cost of refunding the Series 1998B Bonds into Variable Rate Demand Hospital Revenue Bonds similar in characteristics to the original debt. The fair value of the option was a liability of \$16,061,903 and \$2,713,535 at September 30, 2008 and 2007, respectively.

During 2003, the District issued \$80,000,000 in Sarasota County Public Hospital District Variable Rate Hospital Revenue Bonds, Series 2003A, due in annual amounts through 2037. The Series 2003A Bonds were collateralized by a municipal bond insurance policy. On February 1, 2008, in order to enhance the marketability of the bonds, the District performed a conversion of the Series 2003A bonds to add a bank liquidity facility in the form of a standby bond purchase agreement.

During 2003, the District entered into two interest rate swap agreements with original notional amounts of \$80,000,000 and reduction terms consistent with the retirement of the Series 2003A Bonds. Under one agreement the District pays SIFMA and receives a percentage of LIBOR. The effect of the swap was a reduction in interest expense of approximately \$855,000 and \$499,000 for the years ended September 30, 2008 and 2007, respectively. The fair value of the swap at September 30, 2008 and 2007 was a liability of \$1,037,594 and \$731,933, respectively. Under the other agreement, the District pays a fixed rate of 3.61% and receives a percentage of LIBOR. The effect of this interest rate swap was an increase in interest expense for the years ended September 30, 2008 and 2007 of approximately \$1,462,000 and \$19,000, respectively. The fair value of the swap was a liability of \$5,844,033 at September 30, 2008 and an asset of \$2,351,805 at September 30, 2007. The counterparty on this swap is Lehman Brothers Special Financing

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

Inc. (LBSF). LBSF's guarantor, Lehman Brothers Holdings (LBH) filed for bankruptcy on September 14, 2008 placing LBSF in default on the agreement, a condition which existed at September 30, 2008. The Lehman bankruptcy trustee is working to have creditworthy institutions assume Lehman's positions on the swap. The District does not anticipate the ultimate resolution of the assignment to have an adverse impact on its financial condition, results of operations or cash flows.

During 2005, the District entered into three fixed spread basis swaps with notional amounts of \$26,000,000, \$10,000,000, and \$84,000,000 with reduction terms consistent with the retirement of the Series 1996A, Series 1997A, and Series 2003A bonds, respectively. Under each of the three interest rate swap agreements, the District pays the SIFMA Index and receives a percentage of LIBOR plus a fixed spread. The effect of these interest rate swaps was a decrease in interest expense for the years ended September 30, 2008 and 2007 of approximately \$326,000 and \$614,000, respectively. After the issuance of the Series 2007B Bonds and the defeasance of the Series 1996A Bonds as described below, the District terminated the \$26,000,000 notional amount swap agreement on October 1, 2007 resulting in a realized gain of \$807,600. The fair value of the remaining two swaps at September 30, 2008 was a liability of \$1,797,226 and at September 30, 2007 the fair value was an asset of \$1,657,168.

On September 25, 2007, the District issued a total of \$165,900,000 in Variable Rate Hospital Revenue Bonds which was comprised of the \$82,950,000 Series 2007A and the \$82,950,000 Series 2007B Bonds, both of which were collateralized by a municipal bond insurance policy. The proceeds of this issuance were to provide funds for the defeasances of the Series 1996A Bonds and Series 1997B Bonds, which were outstanding in the amounts of \$56,800,000 and 53,840,000, respectively, and to provide \$50,000,000 of funding for the construction of a new energy plant on the main campus of the Hospital. The Series 2007A and Series 2007B Bonds are collateralized by municipal bond insurance policies and were issued at par value as auction rate securities in weekly auction mode. The defeasance of the 1996A Bonds resulted in a deferred gain on refinancing of \$814,735 and the defeasance of the 1997B Bonds resulted in a deferred loss of \$2,997,427. The defeased bonds were retired by the bond trustee in October and November of 2007.

The refunding of the Series 1996A Bonds and Series 1997B Bonds created economic gains of approximately \$19,114,000 and \$21,563,000, respectively.

Concurrent with the issuance of the Series 2007A and Series 2007B Bonds, the District entered into two interest rate swaps, each with a notional amount of \$82,950,000 with reduction terms consistent with the retirement of the respective bond issues. Under the interest rate swap agreements, the District paid a fixed rate of 3.578% and received a percentage of LIBOR. The combined fair value of the swaps was a liability of \$9,850,185 and \$598,662 at September 30, 2008 and 2007, respectively.

Following the collapse of the auction rate securities market in February 2008, the District converted the Series 2007A and Series 2007B bonds to variable rate demand obligations. The Series 2007A bonds were converted on March 26, 2008 and were supported by a bank liquidity facility in the form of a standby bond purchase agreement. The Series 2007B bonds were converted on April 10, 2008 and are supported by a bank credit facility in the form of a direct pay letter of credit wrapped around the bond insurance policy. The letter of credit expires on April 1, 2011 and has a take out provision for five years and 90 days after the date of a drawing advance. There were no drawings or loans on the line of credit at September 30, 2008.

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Following the June 2008 downgrade of the monoline bond insurers by their respective rating agencies, which caused marketability problems for the Series 2003A and Series 2007A bonds, the District refunded both issues on September 2, 2008. The refunding of the Series 2003A bonds was accomplished through the issuance of the \$76,875,000 Variable Rate Hospital Revenue Refunding Bonds, Series 2008A, which are supported by a bank credit facility in the form of a direct pay letter of credit. The refunding of the Series 2007A bonds was accomplished through the issuance of the \$81,725,000 Variable Rate Hospital Revenue Refunding Bonds, Series 2008B, also supported by a bank credit facility in the form of a direct pay letter of credit. Both of the aforementioned letters of credit expire on October 1, 2011 and have take out provisions for between one year and fourteen months after the date of a drawing advance. There were no drawings or loans on these lines of credit at September 30, 2008.

The refunding of the Series 2003A Bonds and Series 2007A Bonds, resulted in deferred losses of \$3,074,632 and \$2,218,900, respectively. The refunding of the Series 2003A Bonds and Series 2007A Bonds created economic gains of approximately \$706,000 and \$481,000, respectively.

The cash flows required to service the Series 2008A Bonds over their life is approximately \$1,158,000 more than the cash flows that would have been required to service the Series 2003A Bonds. The cash flows required to service the Series 2008B Bonds over their life is approximately \$765,000 more than the cash flows that would have been required to service the Series 2007A Bonds.

The Hospital Revenue Bonds described above are collateralized by a lien on and a pledge of the net revenues of the District and all monies held in funds created by the bond resolution. The debt agreements contain various covenants, which provide for, among other things, the maintenance of minimum levels of cash and investments and specified debt service coverage ratios. The District was in compliance with debt covenants at September 30, 2008 and 2007.

The District's ability to borrow is restricted under certain covenants of the Master Trust Indenture. Among these, is the limitation of indebtedness not under the Master Indenture, which may not exceed 25% of operating revenue.

Approximately \$1,952,000 and \$193,000 of interest expense was capitalized in connection with the District's construction program for the years ended September 30, 2008 and 2007, respectively.

The fair value of the long-term debt is based on quoted dealer quotes for hospital tax-exempt debt with similar terms and maturities and using discounted cash flow analyses based on current interest rates for similar types of borrowing arrangements. The estimated fair value as of September 30, 2008 and 2007 was \$373,717,000 and \$393,806,000, respectively. These values represent a general approximation of the possible value and may never actually be realized.

(6) Retirement Plan

On September 24, 1995, the District withdrew from the Florida Retirement System (FRS). This withdrawal was accomplished by transferring all District employees to SMH Health Care, Inc., a related organization. SMH Health Care, Inc. contracts with the District for leased personnel services. All employees of SMH Health Care, Inc. were given a one-time option to choose between two retirement options with an effective date of October 1, 1995. All employees' benefits previously earned through FRS are guaranteed under the

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

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new retirement plan. Employees who have ten or more years of service under FRS will be entitled to a pension from the State of Florida. Employees who do not have ten years of service will retain their years of service under either of the new options.

The SMH Health Care Retirement Plan (the Plan) is a single-employer defined benefit pension plan administered by the District. The Plan provides retirement, disability, and death benefits to plan members and their beneficiaries. During the year ended September 30, 2003, the District changed the status of the Plan from an ERISA plan to a governmental plan under the Florida Statutes thereby eliminating various ERISA requirements. The change was made effective for the year ended September 30, 2003. On March 26, 2003, the District formally requested a private letter ruling from the Internal Revenue Service (IRS) to change the status of the pension plan to a governmental plan. On January 22, 2007, the IRS informed the District that recent guidance dictates that they not issue a letter ruling on whether a plan is a governmental plan. In the January 22nd communication, the IRS indicated that future guidance is expected to be published regarding the meaning of the term governmental plan. Upon such time as the new guidance is published, the IRS expects to begin to accept requests for these types of private letter rulings again. Management believes, based on discussions with legal counsel, that a favorable outcome will ultimately be granted. However, if the IRS ruling is ultimately unfavorable, the additional contribution amount necessary for the plan to be 90% funded on an ERISA plan basis as of October 1, 2007 is approximately \$40,400,000. The District issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the District.

Plan members are not required or permitted to contribute to the Plan under the funding policy. The District is required to contribute at an actuarially determined rate.

The District's annual pension cost and net pension asset (obligation) to the Plan, included with employee compensation and benefits payable in the balance sheets, as of September 30, 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Annual required contribution	\$ (17,501,729)	(16,542,927)
Interest on net pension obligation	—	—
Adjustments	—	—
	<hr/>	<hr/>
Annual pension cost	(17,501,729)	(16,542,927)
Contributions made	<u>17,514,972</u>	<u>17,110,463</u>
	<hr/>	<hr/>
Increase in net pension asset/decrease in pension obligation	13,243	567,536
Net pension asset (obligation), beginning of year	<u>—</u>	<u>(567,536)</u>
Net pension asset, end of year	<u>\$ 13,243</u>	<u>—</u>

The annual required contribution for the current year was determined as part of the October 1, 2007 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

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increases of 5.5% per year. Both (a) and (b) included an inflation component of 3.0%. Effective October 1, 1999, the actuarial value of assets method was changed from fair value to a method utilizing a five-year averaging of gains and losses. The unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed group basis. The remaining amortization period at October 1, 2007 was 25 years.

Three-year trend information is as follows:

	Annual Pension Cost (APC)	Percentage of APC contributed	Net pension asset (obligation)
Fiscal year ended September 30:			
2006	16,975,627	96.7%	(567,536)
2007	16,542,927	103.4	—
2008	17,501,729	99.8	13,243

A schedule of funding progress (required supplementary information-unaudited) for the previous three plan years is as follows:

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
10/1/2005	102,929,449	160,568,781	57,639,332	64.1%	130,399,526	44.2%
10/1/2006	115,020,888	176,273,890	61,253,002	65.3	132,528,044	46.2
10/1/2007	130,471,694	190,701,634	60,229,940	68.4	139,894,544	43.1

(7) Post-employment Benefits

The District provides postemployment health care benefits to all employees who retire from the District under the Plan after 20 or more years of service and age 55; or after 30 years of service. Premiums paid by retirees are based on the projected average plan cost of the District's self-insured health benefit program for the year.

Life insurance is offered to those who retire under the Florida Retirement System (FRS) or the Plan with at least 20 years of service.

The Plan is funded on a pay-as-you-go basis. The District may make additional contributions as desired. No additional contributions have been made to date.

The District's annual other postemployment benefit (OPEB) cost is calculated based on the *Annual Required Contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

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the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

	2008
Annual required contribution	\$ 635,892
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost	635,892
Contributions made	(130,560)
Increase in net OPEB obligation	505,332
Net OPEB obligation, beginning of year	—
Net OPEB obligation, end of year	\$ 505,332

The net OPEB obligation is included with employee compensation and benefits payable in the balance sheets. The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2008 were as follows:

	Annual OPEB Cost (AOC)	Percentage of AOC contributed	Net OPEB obligation
Fiscal year ended September 30:			
2008	\$ 635,892	20.5%	\$ 505,332
2007	—	—	—
2006	—	—	—

A schedule of funding progress (required supplementary information-unaudited) for the plan year is as follows:

Actuarial valuation date	Actuarial value of plan assets	Actuarial accrued liability	Unfunded Actuarial accrued liability (UAAL)	Funded ratio	Covered payroll	UAAL as a % of covered payroll
10/1/2007	—	6,377,208	6,377,208	—%	154,247,576	4.1%

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Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2007, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate, and an annual healthcare cost trend rate of 9% initially, reduced each year until an ultimate rate of 5% is reached after 10 years (in the 2016/2017 plan year).

(8) Related Organizations

The District is related with various organizations through several provisions contained in the articles of incorporation and bylaws of the entities. Net amounts due from these related organizations and investments in related organizations as of September 30, 2008 and 2007 are as follows:

	2008	2007
Current assets:		
Community Health Corporation	\$ 625,115	670,384
Physician Hospital Organization, Inc.	1,028,614	1,055,952
LEESAR HealthTrust Partners, L.C.	1,070,000	1,070,714
Healthcare Sarasota, Inc.	222,730	194,911
Total current assets	\$ 2,946,459	2,991,961
Noncurrent assets (included in other assets):		
Investment in Healthcare Sarasota, Inc.	\$ 38,064	38,064
Investment in LEESAR HealthTrust Partners, L.C.	4,191,212	3,729,559
Total noncurrent assets	\$ 4,229,276	3,767,623
Current liabilities:		
Community Health Corporation	\$ —	40,833
Physician Hospital Organization, Inc.	126,330	59,116
Total current liabilities	\$ 126,330	99,949

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

Community Health Corporation was established to provide educational services, operate, manage, and own health care facilities, provide services for the care of persons suffering from illnesses and disabilities, and to further the interest of the District.

Physician Hospital Organization, Inc. is a corporation formed by physicians and the Hospital. The corporation contracts with payors to provide health care services. The District and certain medical staff physicians are each 50% members of the entity. The District utilizes the equity method of accounting for the investment.

During 1998, the Hospital entered into a joint venture with another southwest Florida area governmental hospital. Each organization has a 50% ownership interest. The purpose of the joint venture was to develop a regional service center, LEESAR Healthtrust Partners, L.C. (LEESAR), to meet the materials services and distribution needs of both hospitals. The hospitals agreed to fund initial costs of opening LEESAR and working capital needs through an established line of credit. Each hospital provided a revolving credit loan not to exceed \$3,000,000 to assist in funding LEESAR purchases, capital costs and operational costs. The terms of the amended agreement stated the entire principal and accrued interest would be due and payable on September 30, 2005. The District voted in November 2003 to convert the LEESAR loan to an equity form of investment, effective September 30, 2003, due to LEESAR's inability to repay the loan under the current terms. The Hospital is accounting for the joint venture under the equity method of accounting. LEESAR's excess of revenues over expenses was approximately \$923,000 and \$997,000 for the years ended September 30, 2008 and 2007, respectively.

Healthcare Sarasota, Inc. is a business coalition formed by community members. The corporation negotiates for the members' employees and dependents to provide cost effective health services for those insured. The District is one of four equal members of the corporation. The District is accounting for the joint venture under the equity method of accounting.

Sarasota Memorial Healthcare Foundation, Inc. (the Foundation) was formed to assist in fundraising activities and community relations. Funds contributed by this organization to the District are recorded as restricted or unrestricted gifts and bequests depending on the nature of the donation.

The District has pledges receivable for plant replacement and expansion from the Foundation of \$1,758,778 and \$3,593,356 as of September 30, 2008 and 2007, respectively. The District received \$4,933,519 and \$2,534,147 from the Foundation during the years ended September 30, 2008 and 2007, respectively.

(9) Malpractice Insurance

The District is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. The District is liable for losses in excess of amounts accrued. However, in management's opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position of the District. Effective September 12, 1986, the District, as a "state agency or subdivision," eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of \$100,000. The District accrued for the Hospital and Sarasota Memorial Nursing and Rehabilitation Center approximately \$6,920,000 and \$7,200,000 as of September 30, 2008 and 2007, respectively, for estimated professional liability claims, which is included in other accrued expenses in the accompanying balance sheets.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

PSI is subject to malpractice claims and litigation. Losses incurred have been estimated and accrued in the accompanying financial statements. PSI is liable for losses in excess of amounts accrued. However, in management’s opinion, such excess, if any, should not have a material adverse effect on the results of operations or financial position. PSI has received a favorable ruling on a court decision that its physicians are covered under the doctrine of sovereign immunity. Effective December 1, 2003, PSI as a “state agency or subdivision,” eliminated its malpractice insurance coverage and invoked sovereign immunity for medical malpractice claims in excess of \$100,000. PSI accrued approximately \$2,130,000 and \$2,306,000 as of September 30, 2008 and 2007, respectively, for professional liability claims, which is included in other accrued expenses in the accompanying balance sheets.

Prior to December 1, 2003, PSI carried professional and comprehensive general liability insurance for each physician for claims arising from acts or omissions occurring within the scope of the physician’s employment with PSI. The amount of coverage for each physician was determined jointly by PSI and the physician. The minimum coverage was \$250,000 for each claim and \$750,000 in the aggregate.

Activity related to these self-insured professional liability claims for the years ended September 30, 2008 and 2007 are reflected in the tables below:

	2008			Self-insured liabilities September 30, 2008
	Self-insured liabilities September 30, 2007	Insurance expense	Payments	
Professional liabilities	\$ 9,505,651	108,055	(563,796)	9,049,910

	2007			Self-insured liabilities September 30, 2007
	Self-insured liabilities September 30, 2006	Insurance expense	Payments	
Professional liabilities	\$ 10,836,541	(1,069,292)	(261,598)	9,505,651

(10) Commitments and Contingencies

The District has various contractual arrangements for employment contracts, leased office space related to medical practices, and equipment leases. Some of the employment contracts and operating leases have initial or remaining noncancelable lease terms in excess of one year. Total operating lease expense for the years ended September 30, 2008 and 2007 was approximately \$4,406,000 and \$4,236,000, respectively.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Notes to Financial Statements

September 30, 2008 and 2007

Minimum payments required under contractual agreements and operating leases as of September 30, 2008 are approximately as follows:

	<u>Employment contracts</u>	<u>Operating leases</u>	<u>Total</u>
Year ending September 30:			
2009	\$ 6,166,269	5,684,717	11,850,986
2010	—	5,646,119	5,646,119
2011	—	5,730,625	5,730,625
2012	—	4,703,081	4,703,081
2013	—	4,237,029	4,237,029
All years after September 30, 2013	—	27,851,388	27,851,388
	<u>\$ 6,166,269</u>	<u>53,852,959</u>	<u>60,019,228</u>

Additionally, the District may from time to time, be party to routine legal proceedings incidental to the operation of its business. The outcome of any pending or threatened proceedings is not expected to have a material adverse effect on the financial condition, operating results or cash flows of the District.

(11) Concentrations of Credit Risk

Financial instruments which potentially subject the District to concentrations of credit risk consist principally of cash and cash equivalents, investments, patient accounts receivable, and other assets and assets whose use is limited or restricted under bond indenture agreements and by the District for future use.

The District places its cash and cash equivalents with what management believes to be high credit quality financial institutions. As stated in note 2, the custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution or collateralized with securities held by the pledging financial institution's trust department or agent but not held in the District's name. The District's governmental bank balances are held in accounts protected under Chapter 280, Florida Statutes in institutions classified as qualified public depositories under Chapter 280 for the years ended September 30, 2008 and 2007. Other entities of the District have deposits in a financial institution in excess of federally insured limits and which are not collateralized.

As noted in note (2) (b) above, the District's board designated and restricted investments are primarily invested in time deposits with high credit quality financial institutions, U.S. Treasury bonds and notes, government-backed mortgage securities, and highly rated corporate bonds.

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September 30, 2008 and 2007

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of gross receivables from patients and third-party payors as of September 30, 2008 and 2007 was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	32.9%	29.0%
Self-pay and others	23.8	30.7
Managed care and commercial	33.9	31.0
Medicaid	9.4	9.3
	<u>100.0%</u>	<u>100.0%</u>

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
 Supplemental Information – Combining Balance Sheet Information
 September 30, 2008

Assets	Sarasota Memorial Hospital	Corporate division	Sarasota Memorial Nursing & Rehabilitation Center	Charter Plan	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	Sarasota Memorial Home Care Inc.	SMH Physician Services, Inc.	Eliminations	Total
Current assets:											
Cash and cash equivalents	\$ 30,401,659	365,006	996,158	864,091	—	32,626,914	(46,832)	692,513	2,434,596	—	35,707,191
Patient accounts receivable, less allowance for uncollectible accounts	45,093,864	—	1,353,755	—	—	46,447,619	—	604,209	1,930,740	—	48,982,568
Inventories of supplies	7,862,427	112,652	25,221	—	—	8,000,300	—	11,474	2,555	—	8,014,329
Prepaid expenses and other assets	9,836,157	969,242	16,515	1,650	—	10,823,564	41,715	24,846	94,866	—	10,984,991
Estimated Medicare and Medicaid settlements	—	—	—	—	—	—	—	—	—	—	—
Due from related organizations	6,146,634	415,822	—	—	(3,592,042)	2,970,414	28,611,530	—	191,837	(28,827,322)	2,946,459
Total current assets	99,340,741	1,862,722	2,391,649	865,741	(3,592,042)	100,868,811	28,606,413	1,333,042	4,654,594	(28,827,322)	106,635,538
Restricted investments	43,512,913	—	—	—	—	43,512,913	—	16,670	—	—	43,529,583
Board designated investments	478,520,734	—	—	—	—	478,520,734	—	—	—	—	478,520,734
Capital assets, net	204,442,204	78,682,367	3,960,220	—	—	287,084,791	—	158,479	621,847	—	287,865,117
Other assets	10,094,273	387,562	—	—	(1,810,190)	8,671,645	3,712,544	—	—	—	12,384,189
Interest rate swaps	—	—	—	—	—	—	—	—	—	—	—
Total assets	\$ 835,910,865	80,932,651	6,351,869	865,741	(5,402,232)	918,658,894	32,318,957	1,508,191	5,276,441	(28,827,322)	928,935,161

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
Supplemental Information – Combining Balance Sheet Information
September 30, 2008

Liabilities and Net Assets	Sarasota Memorial Hospital	Corporate division	Sarasota Memorial Nursing & Rehabilitation Center	Charter Plan	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	Sarasota Memorial Home Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Current liabilities:											
Accounts payable	\$ 14,250,639	1,688,830	231,057	33,204	—	16,203,730	66,545	41,752	549,918	—	16,861,945
Employee compensation and benefits payable	—	—	—	—	—	—	28,539,868	—	5,570	—	28,545,438
Other accrued expenses	13,140,343	660,905	701,779	389,911	—	14,892,938	—	37,008	2,186,310	—	17,116,256
Estimated Medicare and Medicaid settlements	2,661,545	—	—	—	—	2,661,545	—	—	—	—	2,661,545
Due to related organizations	25,405,285	3,293,789	1,472,075	324,307	(3,592,042)	26,903,414	—	340,815	1,709,423	(28,827,322)	126,330
Current portion of State of Florida medical assistance assessment	5,214,661	—	—	—	—	5,214,661	—	—	—	—	5,214,661
Current portion of long-term debt	7,230,087	35,966	—	—	—	7,266,053	—	—	—	—	7,266,053
Total current liabilities	67,902,560	5,679,490	2,404,911	747,422	(3,592,042)	73,142,341	28,606,413	419,575	4,451,221	(28,827,322)	77,792,228
Long-term debt, less current portion	339,322,941	18,978,130	1,810,190	—	(1,810,190)	358,301,071	—	—	—	—	358,301,071
State of Florida medical assistance assessment, less current portion	2,628,790	—	—	—	—	2,628,790	—	—	—	—	2,628,790
Deferred revenue and other long-term liabilities	—	1,264,600	—	—	—	1,264,600	3,712,544	—	—	—	4,977,144
Interest rate swaps	24,412,524	15,361	—	—	—	24,427,885	—	—	—	—	24,427,885
Total liabilities	434,266,815	25,937,581	4,215,101	747,422	(5,402,232)	459,764,687	32,318,957	419,575	4,451,221	(28,827,322)	468,127,118
Commitments and contingencies											
Net assets:											
Unrestricted	502,023,242	(4,673,202)	(13,261)	118,319	(1,810,190)	495,644,908	—	913,468	203,373	—	496,761,749
Invested in capital assets, net of related debt	(103,652,537)	59,668,272	2,150,029	—	1,810,190	(40,024,046)	—	158,479	621,847	—	(39,243,720)
Restricted	3,273,345	—	—	—	—	3,273,345	—	16,669	—	—	3,290,014
Total net assets	401,644,050	54,995,070	2,136,768	118,319	—	458,894,207	—	1,088,616	825,220	—	460,808,043
Total liabilities and net assets	\$ 835,910,865	80,932,651	6,351,869	865,741	(5,402,232)	918,658,894	32,318,957	1,508,191	5,276,441	(28,827,322)	928,935,161

See accompanying independent auditors' report.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT
 Supplemental Information – Combining Statements of Operations and Changes in Net Assets Information
 Year ended September 30, 2008

	Sarasota Memorial Hospital	Corporate division	Sarasota Memorial Nursing & Rehabilitation Center	Charter Plan	Eliminations	Sarasota County Public Hospital District	SMH Health Care, Inc.	Sarasota Memorial Home Care, Inc.	SMH Physician Services, Inc.	Eliminations	Total
Operating revenues:											
Net patient service revenue, net of provision for bad debts	\$ 390,306,996	—	9,767,038	—	—	400,074,034	—	5,693,805	26,901,124	—	432,668,963
Other revenue	10,421,781	18,359,893	47,103	—	(10,920,704)	17,908,073	247,044,998	423,486	1,190,742	(248,736,266)	17,831,033
Total operating revenues	<u>400,728,777</u>	<u>18,359,893</u>	<u>9,814,141</u>	<u>—</u>	<u>(10,920,704)</u>	<u>417,982,107</u>	<u>247,044,998</u>	<u>6,117,291</u>	<u>28,091,866</u>	<u>(248,736,266)</u>	<u>450,499,996</u>
Operating expenses:											
Salaries, wages and fringe benefits	195,207,301	9,893,691	6,889,840	140,981	—	212,131,813	246,748,220	4,966,531	28,952,316	(246,748,220)	246,050,660
Supplies	90,779,228	657,207	1,336,489	1,478	—	92,774,402	—	230,949	1,103,263	—	94,108,614
Purchased services	76,778,966	6,878,713	892,818	43,032	(10,869,863)	73,723,666	296,778	1,003,366	3,589,886	(1,540,050)	77,073,646
Professional fees	11,727,083	76,967	82,000	—	(50,841)	11,835,209	—	902	27,500	(447,996)	11,415,615
State of Florida medical assistance assessment	4,943,259	—	—	—	—	4,943,259	—	—	—	—	4,943,259
Depreciation	27,401,834	4,373,644	176,080	—	—	31,951,558	—	57,260	277,901	—	32,286,719
Total operating expenses	<u>406,837,671</u>	<u>21,880,222</u>	<u>9,377,227</u>	<u>185,491</u>	<u>(10,920,704)</u>	<u>427,359,907</u>	<u>247,044,998</u>	<u>6,259,008</u>	<u>33,950,866</u>	<u>(248,736,266)</u>	<u>465,878,513</u>
Operating income (loss)	<u>(6,108,894)</u>	<u>(3,520,329)</u>	<u>436,914</u>	<u>(185,491)</u>	<u>—</u>	<u>(9,377,800)</u>	<u>—</u>	<u>(141,717)</u>	<u>(5,859,000)</u>	<u>—</u>	<u>(15,378,517)</u>
Nonoperating realized items:											
Ad valorem tax	56,511,960	—	—	—	—	56,511,960	—	—	—	—	56,511,960
Interest expense	(14,846,541)	(465,619)	(79,965)	—	79,965	(15,312,160)	—	—	—	—	(15,312,160)
Investment income	20,498,844	11,750	104	—	(79,965)	20,430,733	—	244	22,199	—	20,453,176
Termination of interest rate swaps	807,600	—	—	—	—	807,600	—	—	—	—	807,600
Other nonoperating income (expense)	(338,204)	12,661,290	—	291,598	—	12,614,684	—	3,005	—	—	12,617,689
Total nonoperating realized items	<u>62,633,659</u>	<u>12,207,421</u>	<u>(79,861)</u>	<u>291,598</u>	<u>—</u>	<u>75,052,817</u>	<u>—</u>	<u>3,249</u>	<u>22,199</u>	<u>—</u>	<u>75,078,265</u>
Excess (deficit) of revenues over expenses before nonoperating unrealized items	<u>56,524,765</u>	<u>8,687,092</u>	<u>357,053</u>	<u>106,107</u>	<u>—</u>	<u>65,675,017</u>	<u>—</u>	<u>(138,468)</u>	<u>(5,836,801)</u>	<u>—</u>	<u>59,699,748</u>
Nonoperating unrealized items:											
Unrealized losses on investments	(13,566,133)	—	—	—	—	(13,566,133)	—	—	—	—	(13,566,133)
Changes in value of interest rate swaps	(32,957,707)	(1,243,511)	—	—	—	(34,201,218)	—	—	—	—	(34,201,218)
Total nonoperating unrealized items	<u>(46,523,840)</u>	<u>(1,243,511)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(47,767,351)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(47,767,351)</u>
Excess (deficit) of revenues over expenses	<u>10,000,925</u>	<u>7,443,581</u>	<u>357,053</u>	<u>106,107</u>	<u>—</u>	<u>17,907,666</u>	<u>—</u>	<u>(138,468)</u>	<u>(5,836,801)</u>	<u>—</u>	<u>11,932,397</u>
Other changes in net assets:											
Contributions restricted for capital purposes	2,757,491	—	—	—	—	2,757,491	—	—	—	—	2,757,491
Other	—	—	—	—	—	—	—	—	—	—	—
Net transfers from (to) other component units	12,300,000	(18,000,000)	—	—	—	(5,700,000)	—	—	5,700,000	—	—
Increase (decrease) in net assets	<u>25,058,416</u>	<u>(10,556,419)</u>	<u>357,053</u>	<u>106,107</u>	<u>—</u>	<u>14,965,157</u>	<u>—</u>	<u>(138,468)</u>	<u>(136,801)</u>	<u>—</u>	<u>14,689,888</u>
Net assets, beginning of year	<u>376,585,634</u>	<u>65,551,489</u>	<u>1,779,715</u>	<u>12,212</u>	<u>—</u>	<u>443,929,050</u>	<u>—</u>	<u>1,227,084</u>	<u>962,021</u>	<u>—</u>	<u>446,118,155</u>
Net assets, end of year	<u>\$ 401,644,050</u>	<u>54,995,070</u>	<u>2,136,768</u>	<u>118,319</u>	<u>—</u>	<u>458,894,207</u>	<u>—</u>	<u>1,088,616</u>	<u>825,220</u>	<u>—</u>	<u>460,808,043</u>

See accompanying independent auditors' report.

SARASOTA COUNTY PUBLIC HOSPITAL DISTRICT

Supplemental Information – Budgetary Comparison Schedule (Unaudited)

Year ended September 30, 2008

(in thousands of dollars)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating revenues:			
Net patient service revenue	\$ 450,548	432,669	(17,879)
Other revenue	16,929	17,831	902
Total operating revenues	<u>467,477</u>	<u>450,500</u>	<u>(16,977)</u>
Operating expenses:			
Salaries, wages, and fringe benefits	256,832	246,051	10,781
Supplies	101,121	94,109	7,012
Purchased services	81,589	77,074	4,515
Professional fees	9,690	11,415	(1,725)
State of Florida medical assistance assessment	5,180	4,943	237
Depreciation	34,607	32,287	2,320
Total operating expenses	<u>489,019</u>	<u>465,879</u>	<u>23,140</u>
Operating loss	<u>(21,542)</u>	<u>(15,379)</u>	<u>6,163</u>
Nonoperating realized items:			
Ad valorem tax	55,339	56,512	1,173
Interest expense	(16,047)	(15,312)	735
Investment income	29,252	20,453	(8,799)
Termination of interest rate swap	—	808	808
Other nonoperating income	13,894	12,618	(1,276)
Total nonoperating realized items	<u>82,438</u>	<u>75,079</u>	<u>(7,359)</u>
Excess of revenues over expenses before nonoperating unrealized items	<u>60,896</u>	<u>59,700</u>	<u>(1,196)</u>
Nonoperating unrealized items:			
Unrealized losses on investments	—	(13,566)	(13,566)
Changes in value of interest rate swaps	—	(34,201)	(34,201)
Total nonoperating unrealized items	<u>—</u>	<u>(47,767)</u>	<u>(47,767)</u>
Excess of revenues over expenses	60,896	11,933	(48,963)
Other changes in net assets:			
Contributions restricted for capital purposes	5,000	2,757	(2,243)
Increase in net assets	65,896	14,690	(51,206)
Net assets, beginning of year	446,118	446,118	—
Net assets, end of year	\$ <u>512,014</u>	<u>460,808</u>	<u>(51,206)</u>

See accompanying independent auditors report.



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**Report on Internal Control over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board Members
Sarasota County Public Hospital District:

We have audited the financial statements of Sarasota County Public Hospital District (the District) as of and for the years ended September 30, 2008 and 2007, and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated January 16, 2009.

This report is intended solely for the information and use of management, members of the Board, the Audit Committee, others within the entity, and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 16, 2009
Certified Public Accountants